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The institutional dynamics of consensus and conflict

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VRIJE UNIVERSITEIT

The institutional dynamics of consensus and conflict

**Consensus democracy, corporatism and socio-economic policy-making
and performance in twenty developed democracies (1965-1998)**

ACADEMISCH PROEFSCHRIFT

ter verkrijging van de graad van doctor aan
de Vrije Universiteit Amsterdam,
op gezag van de rector magnificus
prof.dr. T. Sminia,
in het openbaar te verdedigen
ten overstaan van de promotiecommissie
van de faculteit der Sociale Wetenschappen
op donderdag 29 januari 2004 om 13.45 uur
in de aula van de universiteit,
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door

Noël Pascal Vergunst
geboren te Heerlen

promotor: prof.dr. J.E. Keman
copromotor: dr. P.J.M. Pennings

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Nijmegen/Amsterdam December 2003

The institutional dynamics of consensus and conflict

PART I RESEARCH QUESTION, METHOD & THEORY

The institutional dynamics of consensus and conflict

1 INTRODUCTION

1.1 The impact of consensus democracy and corporatism

In comparative political economy many theories have been formulated about the relation between, on the one hand, politics and institutions and on the other hand policy choices and socio-economic performance. This is a study of specific types of political-economic institutions, those of consensus democracy and corporatism. For the past decades these institutions have played a crucial role in the explanation of political and socio-economic performance. In his analysis of democratic systems, Lijphart (1999) makes a distinction between consensus and majoritarian democracy. MacRae (1997) distinguishes adversarial versus consensual politics. The political-economic institutions of policy concertation among organised interests can be characterised as corporatist versus pluralist. Hall & Soskice (2001: 8) make a distinction between coordinated and liberal market economies. This study analyses the impact of different types of institutions on socio-economic policy-making in twenty developed democracies. In the political-economic literature it is argued that types of institutions matter for socio-economic performance, but this study shows that there is no general set of institutions that is superior for all instances. Therefore, it is necessary and relevant to examine under which conditions and to what extent consensus democracy and corporatism are related to better socio-economic performance.

Comparative politics has been concerned with, among other things, the differences and similarities of national democratic systems. How can these be explained by social, historical and economic factors and how do they function? In the 1970s, for example, differences were found in policy outputs and performance between governments with different political colour. After this 'Does politics matter?' debate (see Castles 1982), institutions received more attention (see March & Olsen 1989; Shepsle 1989). Political choices can have consequences for policy-making, institutions constrain the choices that are available for the actors.

The comparative study of democratic political systems has mainly focused on the categorisation and causes of cross-national differences. These studies implicitly examined the impact on political performance. Pluralist theorists stated that political stability is only possible in homogeneous societies (Almond 1956), while the consociational school in comparative research showed under what conditions social cleavages coincide with a stable regime (Lijphart 1977).

Since the 1970s, corporatist scholars have shown the importance of the interest groups of workers and employers for political decision-making in two ways. First, trade unions and employers' organisations tried to influence political actors in

decision-making about socio-economic policy. Second, in post-war West European democracies bargains and social pacts were made between workers and employers on socio-economic issues, in several cases without direct government interference (Schmitter & Lehmbruch 1979; Lehmbruch & Schmitter 1982; Keman, Woldendorp & Braun 1985).

In the 1970s and 1980s several studies argued that corporatist institutions have a positive impact on socio-economic performance. In corporatist political economies, workers and employers agreed on wage moderation in exchange for employment and welfare provisions. Some recent studies still claim the success of corporatism (Crepaz 1992; Compston 1997; Wilensky 2002). Wilensky (2002: 482) concludes that corporatist bargaining arrangements are among the most important sources of good economic performance and that 'democratic corporatism also fosters restraint on nominal wages'. Others claim that this effect disappeared or never even existed (Therborn 1987; Flanagan 1999). Flanagan (1999: 1171) found that

'a relationship between [collective bargaining] structure and performance probably existed in the late 1970s and early 1980s, but that relationship had disappeared by the 1990s and may not have existed in the 1960s'.

Some studies indicate other possible effects, such as a non-linear relationship between corporatist institutions and performance. Calmfors & Driffill (1988) argue that decentralised or centralised wage bargaining structures have better performance than intermediate structures. This short overview shows the wide disagreement in contemporary comparative political economy about the consequences of corporatist institutions for socio-economic performance.

The study of consensus democracy was initially focused more on causes than on effects of institutions. From the 1990s, studies were done on the impact of consensus democracy on socio-economic performance. Again, there is no consensus about the impact of consensual institutions. While Crepaz (1996) and Lijphart (1999) found that consensus democracy is at least not outperformed by majoritarianism, Anderson (2001) questions the conceptualisation and operationalisation as developed by Lijphart (1999) and he found that 'a change from a plurality/single-member district to a PR electoral system would be detrimental to performance' (Anderson 2001: 448) and 'the four core elements of consensus democracy are associated with inferior rather than superior performance' (Anderson 2001: 450). Armingeon (2002: 99) concludes that 'consensus democracy does not lead to a kinder, gentler and better democracy.'

Lijphart's findings about the impact of consensus democracy on performance may be overestimated, since he makes no distinction between different types of institutions. As Lijphart includes several strongly diverging institutions in his index of consensus democracy, it becomes difficult to determine which institution causes which effect. Therefore at least three elements of Lijphart's conceptualisation of consensus democracy must be separated: executive-legislative relations, corporatism and federalism (see also Armingeon 2002; Lane & Ersson 2000; Keman & Pennings 1995). By incorporating so many different types of institutions in the concept of consensus democracy, it has become risky to draw conclusions about its consequences for socio-economic policy-making.

Until now most impact studies in comparative political economy only focused on one specific type of institution. The focus in these studies seems to have been too narrow, whereas Lijphart's and Crepaz' studies use a conceptualisation of institutions that seems to be too broad and unspecific. The ambition of this study is to bring consensus democracy and corporatism together in a comparative analysis of their effects on socio-economic performance. Their differences and similarities are analysed as well as their separate and combined effect on performance. This is conducted from a cross-national and from a diachronic comparative perspective.

The problem that has to be solved here first is that many rivaling theories explain the same phenomena. These theories are rejected and confirmed by different kinds of data and research methods. This theoretical and empirical puzzle deserves an encompassing study of these crucial institutions in comparative political economy. The claim of this study is that institutions still affect the problem-solving capacity of actors with regard to socio-economic policy-making. However, the institutions of consensus democracy and corporatism each play a different role.

This study also demonstrates that institutions are neither static nor given, but are subject to change. Institutions can be adapted to changing socio-economic performance. From this follows that performance can have an impact on institutions and can be a motive for institutional change. This means that this study does more than examining the impact of institutions on performance. Institutions are not constant but changing, and changing performance can lead to necessary adaptations of institutions. This is underestimated in most political economy studies so far.

This study analyses the claim that corporatism and consensus contribute to better socio-economic performance. Can this claim be maintained after taking into account the expressed criticism? This study aims to make several improvements. A new conceptualisation and operationalisation of consensus democracy and corporatism is presented that is more valid, reliable and sensitive to time. An explicit

distinction is made between consensus democracy and corporatism. To analyse this empirically, a combination of variable-oriented comparisons and case-oriented comparisons is used.

1.2 Politics between consensus and conflict

In political decision-making, diverging interests and preferences of actors – such as voters, political parties or interest groups – often lead to conflicts. There are different ways to resolve these conflicts. In a democracy, a majority of one or a group of actors can gain all political power and deny the desires of the defeated minority. This style of decision-making is conflict-driven and relates mainly to preferences of the majority where the ‘winner takes all’. This majoritarian type of democracy may appear to be efficient, but it often neglects the interests of minority groups and has a destabilising potential. Majoritarian democracy has the form of a zero-sum game. An alternative way of conflict solving is the integration of most of the minority groups in the decision-making process, thereby creating a pattern of consensus building by means of consultation. In the long term, the politics of consensus formation can lead to a more stable decision-making process than a majoritarian democracy – which is expressed in a ‘better and kinder’ performance (Lijphart 1999: 275).

This study examines the effects of both types of institutions, between consensus and conflict by means of cooperation and polarisation. How do twenty developed democracies¹ deal with conflict solving and how do institutions, ranging from consensus building to polarising mechanisms, influence socio-economic policy-making and related performance? Two decision-making arenas are analysed: the political decision-making process of voters, political parties and government, and policy concertation among organised interests, including bargaining between trade unions and employers’ organisations. The institutions of consensus democracy and corporatism are used to characterise the decision-making process in shaping socio-economic policy and affecting performance. These can be used to examine the institutional dynamics of consensus and conflict.

Cooperation expresses the actors’ willingness to work together to reach a goal that is in their mutual interest. Cooperation describes the type of actors’ behaviour and their interaction. In game-theoretical terms cooperation occurs in a situation where actors select an option that allows for an optimal outcome. If one or more players do not want to cooperate, they try to maximise their own pay-off at the cost of their opponent. As a result, lack of cooperation leads to a sub-optimal outcome.

When actors reach a consensus this means that an agreement is made that is acceptable to the actors involved and carries their support. Consensus can be the result of cooperative behaviour. The relation between cooperation and consensus is that the former may contribute to the latter. Cooperation and consensus are facilitated by consensual institutions. The aim of this study is to understand how these institutions are developed and how they contribute to consensus and cooperation. The absence of consensus, for instance by a lack of cooperative behaviour, can lead to conflict. Conflict is understood as a situation in which actors cannot reach an agreement by using the available decision rules. To solve a deadlock in formal decision-making additional rules or completely new rules can be helpful to prevent escalation. When these other institutional arrangements fail, formal rules may cease to exist and conflict, with the use of violence, appears the only way of political action. This study uses the dichotomy between consensus-based and conflict-based institutions. This dichotomy characterises the functioning and the effects of institutional arrangements. No actor actually wants conflict, but the interactions between actors and institutions can result in institutions that polarise minorities instead of incorporating them and overarching different interests. In this study, the institutions of consensus democracy and corporatism are conditions for cooperative behaviour and, subsequently, consensus. The institutions of majoritarian democracy and pluralism are conditions for polarising behaviour and subsequently conflict.

A distinction can be made between the type of institutions and the effects of institutions. The crucial feature of consensus democracy and corporatism is that they facilitate consensus and cooperation, but that does not necessarily lead to consensus and cooperation. Majoritarian democracy is said to neglect minorities and to contribute to polarisation, but can also result in cooperation. Actors operating in a majoritarian system can become aware of the rules of the game and use a strategy of consensus and cooperation to prevent deadlock and conflict. In other words, majoritarianism can also lead to consensus and consensual institutions do not always prevent conflict. It is the goal of this study to examine the extent to which these different types of institutions matter for socio-economic policy-making.

1.3 The study of political institutions

Political science contributes to information about the creation of political institutions, their working and their impact on social life. People have different preferences, needs and tastes. For the satisfaction of some goods, cooperation between groups of people is imperative. Certain goods can only be produced if collective institutions are created (Hardin 1982; Mueller 2003). Deploying an army to protect a territory against an enemy, for example, leads to a collective action problem. An army is a

collective good which an individual citizen can almost impossibly provide for on his own. The money needed to erect an army must, therefore, be collected from a large group of citizens. Avoiding a situation in which some people do not contribute (i.e. free riders) while others do, can be a problem. In sum the resources for providing the collective good may turn out to be insufficient.

Which institutions are created and what they do depends on the system of political decision-making. Politics is about the aggregation of private desires into political action (Arrow 1963; Sen 1970; Laver 1997). For a long time political science has taken this process for granted. Political decision-making, however, is not just a black box or a mindless machine. Decision-making is a highly dynamic and complex process of interaction between actors - such as citizens, politicians and bureaucrats - and their institutional context. Hence, political actors are not just waiting for the outcomes of the political process but they will try to actually influence its decision-making process (Dunleavy 1991).

The research presented in this thesis has been carried out in the tradition of the comparative study of political institutions (Tsebelis 1990; Peters 1999; Keman 1997a; Lane & Ersson 2000). The classic comparative study of political institutions focuses mainly on formal institutions. This research tradition provides a host of theoretical and empirical findings on the functioning of formal institutions and appears to be myopic, since it fails to explain and predict stability that occurred in several cases where it was not to be expected. Pluralist theory for example, states that a stable democracy is only possible in a homogeneous society (Almond 1956). This hypothesis was proven wrong by consociationalist theory, which showed that in several small countries a deeply divided political culture could coexist with a stable democracy (Lijphart 1968; Lehmbruch 1967; MacRae 1974). The political stability that actually did occur in some heterogeneous societies such as Austria, Switzerland, the Netherlands and Belgium, was explained by institutional arrangements between its political elites, which enable cooperation between rivaling minorities. Recent studies on this topic have been published by Luther & Deschouwer (1999) and Steiner & Ertman (2002).

The classic theories in comparative politics have a focus on formal institutions in common. The neo-institutionalist approach in comparative politics does not only look at formal institutions, it also takes informal institutions into account. It analyses how actors actually deal with the working of the rules. The interest of this study lies in the effects of institutions. What is their role in the aggregation of preference into outcomes? And most importantly; how do institutional arrangements adjust the effect and working of formal rules? Neo-institutionalism also looks at the

way institutions affect outcomes (Peters 1999: 1; Lane & Ersson 2000: 58-73). Finally, a rational-choice inspired institutional theory links institutional context to the actors' behaviour (Czada, Héritier & Keman 1998; Scharpf 1997).

This study is based on the assumption that the key goal of decision-making institutions is the transformation of individual preferences into collective outcomes. Institutions are not merely seen as neutral procedures. The underlying hypothesis is that actors try to adjust the working of institutions in order to receive higher pay-offs. Institutions affect which outcomes result from the preferences and actions of the actors, whereas actors create institutional arrangements to adjust the outcomes in order to achieve better pay-offs.

Two types of institutions can be distinguished (see also Ostrom 1990: Chapter 2):

- 1) the formal working of institutions (these are the rules for use: formal constraints on behaviour);
- 2) in addition, informal institutions adjust this process (these are the rules in use: informal regulation of behaviour).

Formal institutions can be enforced legally and sanctioned independently, while informal institutions are habits or unwritten agreements between actors of a group that are the result of group action (Keman 1997a). Figure 1.1 shows the relations between formal and informal institutions in a general model of decision-making. The aggregation of preferences into output by formal institutions is influenced by informal institutions. Without creating informal institutions, other output would have been the result. Formal and informal institutions combined together form the institutional arrangements.

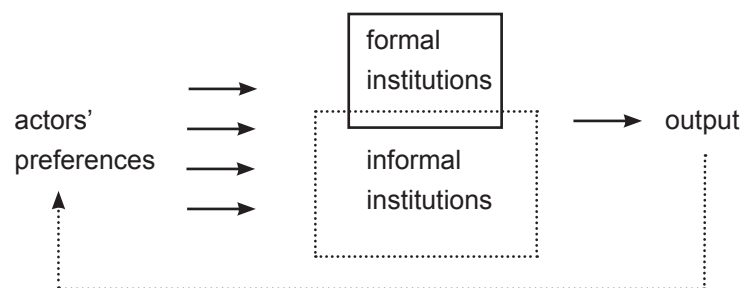


Figure 1.1 General model of political decision-making

The input of the decision-making process consists of actors' preferences. The output of decision-making consists of political decisions, i.e. policy choices. Preferences are considered to be exogenous. This does, of course, not mean that preferences

are not sensitive to already existing knowledge of actors about the rules of the game and the past and future output of the decision-making process. The influence of output on preferences is indicated by a dotted line in Figure 1.1. Actors' preferences must be separated from the strategic manoeuvres that actors can employ to try to improve the chances of selection of their most preferred outcomes. Preferences are considered the starting point for actors on which they will base their strategy in the decision-making process (e.g. Scharpf 1987; Keman 1996). This study focuses on the role of institutions in political decision-making and socio-economic policy-making.

How do informal institutions adjust the working of the formal institutions? A strategy can be developed by an individual actor to alter outcomes, whereas informal rules can only be created by a group of actors, because these rules are formed by conventions or routines of a group². In Figure 1.1, these informal institutions are visualised as a filter that adjusts the working and effects of the formal institutions. The crucial distinction between formal and informal institutions is that the former can be imposed and monitored externally, such as a law, while the latter are agreements between actors that cannot be legally enforced.

The analytical framework of this study draws on the achievements made by rational choice theory and neo-institutionalism (see Scharpf 1997; Shepsle 1989; Laver 1997; Tsebelis 1990; Czada, Héritier & Keman 1998; Peters 1999: Chapter 3; Goodin & Klingemann 1996: Part II). These approaches help to understand the link between actors' preferences and behaviour, their institutional context (i.e. the interaction between the formal and informal rules of the game) and the resulting collective outcomes in terms of socio-economic policy performance.

Several assumptions have been made within the conceptual framework:

- actors' behaviour is goal oriented;
- institutions transform the actors' preferences into collective outcomes;
- informal institutions adjust the effect of formal institutions on preference aggregation;
- institutions eventually affect socio-economic performance;
- actors try to change institutions to achieve higher pay-offs by getting more favourable political decisions which result in a better socio-economic performance.

This study focuses on two specific models representing institutional arrangements that can be conceived as alternatives: consensus versus majoritarian democracy and corporatism versus pluralism.

Lijphart, among others, argued that there is another way of conflict solving apart from the majoritarian system of decision-making. This model is named consensus democracy (also concordance or *Proporz-Demokratie*) to emphasise two things: It deals with a different style of decision-making and it can - in strongly segmented societies - lead to less confrontation and more cooperation. Others have used 'negotiation democracy' as a term to emphasise that the players have to negotiate and to cooperate (Kaiser 1997; Armingeon 2002).

The discussion about macro-economic management in Western democracies is not only about interaction between political parties and party government. It has been argued that the interaction between political decision-making and the role of interest groups has a relevant impact on socio-economic policy-making. It is therefore relevant to examine the way in which government and organised interests – i.e. trade unions and employers' organisations - interact in shaping socio-economic policy-making. Is it possible to distinguish certain patterns in these relations that result in institutional arrangements which can have a crucial impact on socio-economic policy-formation and related performance? This study seeks to find out to what extent the institutional arrangements of consensus democracy and corporatism explain the relation between actors, policy choices and performance.

Lijphart's model of consensus democracy (1984; 1999) is taken as a reference point for the political system of decision-making. The model of corporatism is used for the system of organised interests, including industrial relations. Since the 1970s, corporatism received attention in Western democracies (Schmitter & Lehmbruch 1979; Lehmbruch & Schmitter 1982; Winkler 1976). Both institutional arrangements have institutional processes in common that are seen to be conducive to consensus and cooperation. It has been argued that cooperation and consensus have a positive effect on political stability and socio-economic performance³. The underlying hypothesis in this study is that institutional arrangements promoting consensus and cooperation perform better than models based on conflict. By exploring this hypothesis it is possible to show whether or not these specific institutional arrangements can explain or account for different outcomes in terms of policy-making and socio-economic performance in Western capitalist democracies.

1.4 Research question

The purpose of this study is to explain the role of formal and informal institutions of consensus democracy and corporatism in socio-economic policy-making in developed capitalist democracies. It contributes to prior empirical and theoretical studies on public policy formation in these democracies. Analytical improvements will be endeavoured by integrating the system of political decision-making and

industrial relations, relating institutional context and institutional change to both actors' behaviour and socio-economic output and performance from a comparative and dynamic perspective. This is important, because too often consensus democracy and corporatism are treated separately or one is seen as part of the other (cf. Lijphart & Crepaz 1991 and Crepaz & Lijphart 1995 versus Keman & Pennings 1995; see Lane & Ersson 2000; Pennings 1997).

A better understanding of the impact of institutional arrangements on socio-economic policy-making and performance contributes to the discussion about the management of political and social problems that all countries have to cope with, such as high unemployment rates, inflation and public debts. This study can and will not provide practical solutions for current problems. It will, however, provide useful information about institutions regarding their actual functioning, their impact, their effectiveness, their efficiency in avoiding negative spillovers and their legitimacy and responsiveness to the needs of citizens who accept these institutions.

This research project investigates how different political and political-economic institutional arrangements - like consensus vis-à-vis majoritarian types of democracy on the one hand, and corporatist vis-à-vis pluralist types of policy concertation among organised interests on the other hand - operate and how the combined models affect socio-economic policy-making and performance in Western capitalist democracies. This study, therefore, focuses on the following research question:

Under what conditions and to what extent do the institutions of consensus democracy and corporatism contribute to better socio-economic performance in twenty developed democracies?

At the heart of this study are two relations. The first relation concerns the linkage between corporatism and consensus democracy. How are these two institutional arrangements, which theoretically share a search for consensus-building, related and do these co-exist (or not) in advanced Western democracies?

The second examined relation is the linkage between these institutional models and socio-economic policy-making and performance in Western capitalist democracies. Comparative analysis makes it possible to examine the effects different institutions can have on socio-economic policy. Institutions are not necessarily the only determinants of socio-economic policy outputs and performance. The impact of institutions on performance can depend on external conditions, such as global or local trends in economic growth, the size of a country, openness of the economy and international cooperation (Kitschelt et al. 1999; Scharpf & Schmidt 2000; Traxler, Blaschke & Kittel 2001). Therefore the analyses control for several possible external

effects. This study mainly examines the importance of both consensus democracy and corporatism. The goal is to unravel the political-institutional dimension, not primarily the socio-economic factors. The most fruitful way to do this is to analyse the linkages between actors' behaviour and their institutional context.

The research question leads to several sub-questions that will be addressed in this thesis:

- 1 How are institutions conceptualised, how are they conceived in relation to political behaviour, and how are they operationalised for empirical analysis?
- 2a What is consensus democracy, how is it defined and how can it be measured properly in comparative research?
- 2b How did consensus democracy develop in twenty developed democracies between 1965 and 1998?
- 3a What is corporatism, how is it defined and how can it be measured in comparative research?
- 3b How did corporatism develop in twenty developed capitalist democracies between 1965 and 1998?
- 4 What are both the conceptual and the empirical relation between consensus democracy and corporatism; which relations can be found between both institutional arrangements, cross-national and through time?
- 5 What is the impact of consensus democracy and corporatism on socio-economic performance?

To answer these questions, the following research design is used. First of all, this study will assess the role of consensus democracy and corporatism in socio-economic policy-making. These concepts are redefined or measured in another way than done in other comparative studies. Secondly, this study focuses explicitly on the relation between institutions and actors in socio-economic policy-making. This results in a research design that contains both a cross-national quantitative comparative study and a comparative qualitative analysis of four cases. The selected cases for comparative analysis are derived from the results of the broad comparative analysis. The contribution of this study is a new and updated analysis of the impact of consensus democracy and corporatism on socio-economic policy-making and performance. This way the external validity of both concepts is enhanced and it can contribute to validate existing insights. Results are not merely based on a general macro-level comparison of aggregated data. Four cases are selected based on their position on the dependent variable - socio-economic policy-

making and performance - and the independent variables - the institutional models of consensus democracy and corporatism. Not only will this help to understand interrelations between the two models of institutionalising consensus and policy-making and performance, but it will also enhance the internal validity of the cross-national analysis (see Pennings, Keman & Kleinnijenhuis 1999; Landman 2000).

1.5 Methods, research design & data

The following approach is used for a systematic analysis of the research question. Consensus democracy and corporatism are discussed as well as the way to measure them. The impact of these models on socio-economic policy-making and performance is examined by comparing twenty developed capitalist democracies, which are also members of the OECD. This comparative study is done in two stages. In the first stage, a general comparison of twenty countries between 1965 and 1998 is made. This comparison shows the patterns of consensus democracy and corporatism cross-nationally, through time and in terms of their interrelationships. In addition these institutional models are related to socio-economic policy-making and performance. Aggregated quantitative data are used for this comparison. More detailed case analyses clarify how actors are related to institutions and institutional change within one country.

Four countries are selected from the entire group and examined in more detail. These countries are selected based on the way they fit the general conclusions concerning the impact of the institutional models on socio-economic performance. These countries are the Netherlands, New Zealand, Portugal and Sweden. Each represent a different mix of institutionalisation of consensus democracy and corporatism and show a distinctive pattern of policy performance. These case analyses can reveal the different processes that are at work in these different institutional environments and in particular the role of actors. The selection of the cases is discussed in Chapter 6.

The scope of analysis is twenty developed democracies. For these countries both main concepts used in this study are applicable and a wide range of reliable political and economic data are available. This group is restricted to democracies, because in these regimes individuals and groups of people have the opportunity to elect their political representatives, to reveal their preferences and to influence socio-economic policy-making. This excludes countries with an authoritarian regime, where there are no free and fair elections and where there is no freedom of organisation (see Keman 2002). Although the specific institutional arrangements that are the key elements of this study have occasionally been applied to other countries - such as India and South Africa - they have to be considered specifically

valid for these advanced industrialised countries. An additional argument is the restriction to select only countries with a mixed economy, which are characterised by a free market, private property of the means of production and a long history of democratic governance. Last but not least, the scope of analysis is limited to the period between 1965 and 1998. Including the pre-1965 period leads to problems with regard to data collecting. A period of 34 years is sufficient for a cross-time analysis in respect to the research question. This period contains political and institutional changes that took place in most countries which were caused by changes in society, the stagflation crisis of the early 1970s and the transition to democracy in three countries: Greece, Spain and Portugal.

The analysed countries are selected from the members of the OECD⁴. Recently joined OECD-members – i.e. after 1990 – are not selected because these countries currently have only a recently established political system and data are not available. Two small countries – Iceland and Luxemburg – are not selected either. Conceptually both would fit the group, but because of their small size they each have a particular economic structure. Finally, Turkey and Japan are not included in the universe of discourse, because it is highly questionable that the concepts of consensus democracy and corporatism mean the same there as they do elsewhere in established democratic politics. Hence, these countries are more similar than different regarding the relations between state and society.

The following twenty countries are included in the analysis: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK and the US. Most of these countries have appeared in many comparative studies of public policy. Some of them, however, need further explanation. Spain, Portugal and Greece are included in this analysis, despite of the fact that these countries have had long-standing experiences with strongly authoritarian regimes. From the mid 1970s, these countries have transformed into a democratic political system. Exactly this transition makes them interesting cases of institutional change. Moreover, they are European countries and EU-members⁵ and are therefore quite similar to the rest of the group when compared to countries that have not been taken into consideration⁶.

Since these twenty countries are long-time members of the OECD, a wide range of data about these countries is available (see Appendix C). The comparative method is used to find differences in institutional arrangements and socio-economic policies in relatively similar countries (Pennings, Keman & Kleinnijenhuis 1999; Peters 1998; Lane & Ersson 1994b). In particular, fluctuations in time as well as over time have to be recognised in contrast to a static view. In addition to the

cross-national comparisons, time series analysis can reveal developments of the institutional models. A dynamic approach examines how actors try to create new institutions or change existing institutions and institutional arrangements to improve socio-economic performance.

The dependent variable of this study is socio-economic policy-making. Socio-economic policy-making can be divided in policy outputs and socio-economic performance (Lane & Ersson 2000; Keman 1997b). The former measures direct policy outputs or policy choices, the latter the actual effects of these outputs on society. Policy outputs that can be measured are government expenditures representing specific policy programmes, such as labour market policy and welfare programmes. Socio-economic performance is partly affected by policy choices and by other factors, which are outside the theoretical framework of this study. Performance can be measured by different kinds of indicators, such as unemployment rates, inflation rates and growth of GDP. The main relations between the concepts are given in the conceptual model of Figure 1.2.

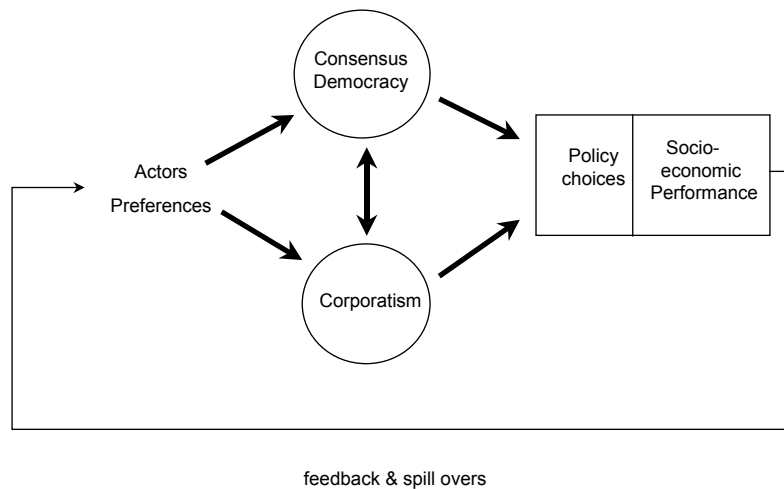


Figure 1.2 Conceptual model

Figure 1.2 represents the conceptual model that functions as a basic guideline for the central question of this study. Actors and their preferences are placed on the left. The political actors are voters, political parties and government. The most

important actors in policy concertation (including industrial relations) are trade unions and employers' organisations. The institutional arrangements are encircled. The first relation that will be examined concerns the interaction between actors and institutions, resulting in institutional arrangements, which are called consensus democracy for the system of political decision-making and corporatism for the system of policy concertation among organised interests. In this study, the relations between these institutional arrangements are examined both theoretically and empirically.

The dependent variable socio-economic policy-making is placed on the right-hand side of Figure 1.2. A deliberate distinction is made between policy choices and socio-economic performance. In Figure 1.2, actors affect the policy-making process through institutional arrangements. What are the actions as mediated by these institutions on the policy-making process? As already mentioned, the impact of both consensus democracy and corporatism on socio-economic policy is influenced by external factors or intervening variables. The goal of this study, however, is limited to the political-institutional context of macro-economic management in capitalist democracies. The cross-national part of this study discusses some contextual variables that can have an effect on the working of these institutional arrangements. Comparative case analysis allows for the inclusion of specific conditions that may have been relevant in understanding certain effects of consensus democracy and corporatism that do not surface in a cross-national analysis.

The arrows in Figure 1.2 indicate the major effects that are expected to emerge. The conceptual model is based on the expectation that actors behave on the basis of their preferences and that institutions transform these into collective decisions. Furthermore, the main emphasis lies on the working of these institutions and the way they make a difference for the resulting policy choices and performance. As indicated in the model there is also an effect of policy outputs and policy performance on the actors' preferences and behaviour. Actors can change their behaviour because of their perception of past policy choices and socio-economic performance. This study is primarily focused on the effects of these institutional arrangements and the way actors try to adjust these institutional arrangements. The main goal is to unravel the relationship between consensus democracy and corporatism and its implications for policy-making and performance in twenty democracies. Part II elaborates on the conceptual model after the main concepts are presented and operationalised. This results in the extended conceptual model that is discussed in Chapter 4.

1.6 Two phases of socio-economic problem-solving

The assumption is that institutions can have an impact on performance. The relation between actors, institutions and performance can be understood as a two-sided relationship. Two phases can be distinguished. In the first phase, the actor's perception of past and present performance can influence the actors' behaviour and strategy in both their acting in decision-making and changing or developing institutional arrangements. In the second phase, these institutional arrangements can make a difference for policy choices and performance. These two phases of socio-economic problem-solving is an elaboration of the debate about the impact of institutions on performance that is applied in this study.

The central thesis in this study is that actors are preference driven and that institutions can be changed by actors in order to reach certain policy and performance goals. Hence, two stages can be distinguished. In the first stage, actors acknowledge the crisis at hand and adapt their behaviour. This stage emphasises the impact of performance on actors' behaviour and institutional arrangements. In the second stage, policy is reformed and institutions are changed to maximise performance. This stage focuses on the impact of institutions on performance.

Phase 1: Performance influences actors' behaviour and strategy; as a result institutional arrangements can be changed by actors.

The power of actors depends on their success and support of voters and members. Their success and support depends on policy choices and performance. This means that political parties, government, trade unions and employers' organisations have an incentive to make policy choices and develop performance that is good for their voters or members. In this respect, performance influences the preferences and strategy of actors. Actors try to change institutions or actors can act jointly so that institutions change. These institutions are changed in a way which actors believe to be most likely to contribute to favourable policy choices and better performance.

Phase 2 : Actors and institutions determine policy choices and performance.

The second phase deals with how institutions actually shape policy choices and performance. Institutions either constrain possible outcomes or create new outcomes that without these institutions could not have been chosen.

Arena 1 Political decision-making

Voters, political parties and government interact in collective binding decision-making. Voters' behaviour is not analysed here at a micro-level, but voters are

important to explain the interests and actions of political parties. Parties can for instance adjust their ideology to receive a broader support among voters.

Arena 2 Policy concertation among organised interests

Interest groups interact in shaping socio-economic policy. These actors operate in institutionalised forms of consultation and they can make agreements and pacts.

This study analyses these arenas separately and the relations between both arenas. This study shows that these arenas are not always equally important for socio-economic policy.

Within each of these arenas *two levels* can be distinguished. At the *lower level* of the political system voters interact with *higher level* actors: parties and government. These actors interact in making binding political decisions. In policy concertation among organised interests workers and employers are at a *lower level* and trade unions and employers' organisations at a *higher level*. These actors interact in wage bargaining, social pacts and affecting socio-economic policy-making. According to this theoretical framework this study focuses on two phases, two levels and two arenas of socio-economic problem-solving.

1.7 Hypotheses

The following relations are expected to be found in the empirical parts of this study. The *first hypothesis* is that the institutions of consensus democracy and corporatism are not static, but change over time. The *second hypothesis* is that consensus democracy operates differently from corporatism and has a different impact on socio-economic policy-making and performance. The institutions of consensus democracy are more related to political stability, while corporatist institutions are more focused at socio-economic policy-making.

Institutions enable the expression of actors' preferences and behaviour: institutions as instruments for change. Here we are interested in the contribution of the institutions of consensus democracy and corporatism to socio-economic performance.

When formal institutions fail, additional informal institutions are created to prevent a deadlock in decision-making. Consensus democracy and corporatism have institutions that are more open to adaptation by actors in cases of difficult decision-making and economic crisis. For this reason consensus democracy and corporatism give actors the best opportunity to adjust strategies of socio-economic management to changing economic conditions. The institutions of majoritarian

democracy and pluralism are more rigid in this respect. This leads to the *third hypothesis* that consensus democracy and corporatism lead to better socio-economic performance in advanced Western democracies.

It is expected that consensus democracy and corporatism lead to other policy choices than majoritarian democracy and pluralism. Consensus democracy and corporatism create more channels of input of voters, political parties and interest groups in decision-making. These institutions made a crucial difference in the development of the welfare state. In countries with more consensus democracy, governments were more sensitive to voter demands for active social policy. In corporatist countries workers were better organised and had more influence to claim a better system of social protection. The *fourth hypothesis* is that consensus democracy and corporatism contribute to a larger welfare state. Since the late 1980s, the welfare state has come under pressure. Social policy weighs down heavily on government revenues. Welfare states in consensus democracies and corporatist countries are better protected against reforms and cutbacks than in majoritarian democracy and pluralism, where change of the status quo meets less powerful opposition. This lack of strong opposition and a solid majority government facilitate radical policy reform in a majoritarian democracy. It is expected that welfare states in consensus democracies and corporatist countries are more resilient than in majoritarian democracies and pluralist countries.

1.8 Plan of the book

In the comparative analysis of Part II, Chapter 2 presents the consensus model of democracy. The conceptual history of consociational theory and the operationalisation of consensus democracy - including some alternative approaches - are discussed. This information is used for a new approach of the study of consensus democracy. Chapter 3 discusses the conceptual history and the many definitions and measures of corporatism. This opens new directions to study corporatism. Chapter 4 discusses the linkages between consensus democracy and corporatism. Chapter 5 explains and describes the impact of newly conceptualised and operationalised consensus democracy and corporatism on socio-economy policy formation and performance. In the case analyses in Part III, Chapter 6 deals with the selection of four cases for further case study analysis. Chapters 7 to 10 analyse four cases in detail, namely the Netherlands, New Zealand, Portugal and Sweden. Chapter 11 discusses and assesses the results of this study in view of the research question and theoretical aims. The main conclusion of this thesis is that institutions do matter, but in a different way than was assumed by many other studies. The effects of institutions on socio-economic performance are not always positive and straight forward and seem to

depend on other conditions, such as openness of the economy and central bank independence. It seems that performance has to be important for actors' strategies and institutional change as well.

As configurations the institutions of consensus democracy and corporatism do not under all conditions contribute to better socio-economic performance. Consensus democracy and corporatism are not the same types of institutions and they have not the same effect on performance. The research strategy employed in this study, which combines cross-national and cross-time comparisons with a comparative case analysis, allows for better understanding of the relationship between actors, institutions and performance. The cross-national comparisons examine variation across – clusters of – countries. The four cases focus on the behaviour of actors in order to be able to analyse the way preferences are indeed transformed into policy choices. In summary: this study demonstrates how the conditions of socio-economic development are coming about and the extent to which this can be understood by the interaction between actors and institutions.

Notes

¹ The selection of the cases –twenty of the thirty OECD countries – is elaborated in Section 1.5.

² A strategy is employed by an individual actor – or a group of actors – to manipulate decision-making. A rule – both formal and informal - is a norm or an agreement between members of a group.

³ This argument was made more recently by Hicks & Kenworthy (1998), Crepaz (1992).

⁴ The Organisation for Economic Cooperation and Development (OECD) is the continuation of the Organisation for European Economic Cooperation (OEEC), which was founded after World War II to promote the economic recovery of Europe and to implement the Marshall plan. The scope of the OECD goes beyond Europe and the Paris based organisation provides a wide range of socio-economic data and analyses.

⁵ European Union (EU) is used for both the current EU and the European Community (EC).

⁶ Israel is not a member of the OECD, but would otherwise not have been selected. Conflicts with the Palestinians and the military tension with the adjacent countries dominate the political system. The strong role of the army and the migration policy has a major impact on the economic structure; not to mention the extreme level of political violence and terrorist acts.

PART II

COMPARATIVE ANALYSIS

The institutional dynamics of consensus and conflict

2 CONSENSUS DEMOCRACY

2.1 Introduction

There are different institutional models of political decision-making. An institutional model describes both formal and informal arrangements used by actors. In most cases formal rules are laid down and can be legally imposed, e.g. by means of a constitution. Informal institutions are, by contrast, social rules or practices which altogether form specific institutional arrangements between actors. Furthermore, they adjust the working of the formal institutions. Consensus democracy is a specific institutional arrangement. It contains both formal and informal rules which contribute to the creation and persistence of a system of problem-solving through an accommodating strategy of the political elites. Consensus democracy is a system of political decision-making based on cooperation and consensus rather than conflict. This is considered the opposite of majoritarian democracy, in which most if not all power is concentrated in the electoral majority and a dominant executive.

This chapter discusses the consensus model of democracy which, according to the research question, is expected to have an impact on socio-economic performance. First, this chapter gives a description of the conceptual history of consociationalism, which was contesting the general tenets of pluralist theory and later contributed to the concept of consensus democracy. Second, Lijphart's model of consensus democracy versus majoritarian democracy is presented and discussed. Third, the consensus versus majoritarian model of democracy is operationalised, in order to examine its empirical relevance in a comparative perspective and to test the impact of political institutions on policy choices and performance.

2.2 The development of consociational theory

For a long time, pluralist theory dominated the comparative study of political systems (Almond 1956; Dahl 1971; Nordlinger 1981). Pluralists distinguished two types of political systems. The Anglo-American system which is considered to be a homogeneous, secular political culture, and the continental European political systems which are characterised by fragmentation of political culture into political subcultures. In pluralist theory, social heterogeneity leads to political instability. According to Dahl's idea of pluralism this implies theoretically that democracy cannot exist in small countries with a strongly segmented society, like the Netherlands, Switzerland and Belgium. According to Dahl (1966: 379):

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‘the Netherlands would surely be counted a prime candidate for political disintegration, since the country must bear not only some class antagonism but an even more profound cleavage over religion’.

Later, Dahl (1971: 105) argues that ‘any system is in peril if it becomes polarised into several highly antagonistic groups’. Dahl sees polyarchy as a feasible form of democracy. Polyarchy is guaranteed if sufficient public contestation is possible - meaning that there is enough competition between political organisations and elites – and enough political participation is ensured. Dahl (1971: 108) expects that polyarchy is ‘more frequently found in relatively homogeneous countries than in countries with a great amount of sub-cultural pluralism’ (see also Dahl 2000).

An explanation of the political stability that actually did exist in some small countries was presented in several case studies (Lijphart 1968, Steiner 1974, Lehmbruch 1967). They investigated the mechanisms by which political systems may adapt to threats to their stability and to overcome them from an institutionalist point of view. By using so-called consociational devices, elite behaviour can overcome the negative effects of heterogeneity.

A number of plural-societal countries (e.g. Switzerland, Austria, the Netherlands and – to a lesser extent - Belgium), have remained stable democracies due to collaboration between elites and the existence of special mechanisms for elite behaviour. Different names were given to the model that explained the puzzling linkage between a divided society and political stability. Segmented pluralism (strong social fragmentation combined with political efficiency and stability, Lorwin 1971), *Konkordanzdemokratie* (elite decisions are reached by mutual agreement rather than by majority rule, Steiner 1970), corporate pluralism (Lipset & Rokkan 1967 on Norway) and proportional democracy or *Proporzdemokratie* (goods and offices are distributed proportionally according to the size of the subgroups, Lehmbruch 1967).

These different terms point to the different approaches of the analysis of consociationalism. McRae (1974: 5) distinguishes three principal view points from which to approach consociationalism:

- 1 as a pattern of *social structure*, emphasising the degree of religious, ideological, cultural or linguistic segmentation in society itself (Lorwin 1971: institutionalised cleavage structures);
- 2 as a pattern of *elite behaviour* and mass-elite relationships, emphasising the processes of decision-making and conflict regulation (Lijphart 1968: overarching cooperation between the political elites to counteract the disintegrating tendencies in the system);

3 as an underlying characteristic of political culture arising from *historical circumstances* which may antedate the period of mass politics (Lehmbruch 1967; Daalder 1966; Daalder 1971: the existence of older patterns of elite cooperation in the pre-modern period has paved the way for a politics of accommodation in an age of mass politics).

Pluralist theory states that a democratic system is stable if there are both centrifugal forces (social cleavages) and centripetal forces (cross-pressures) at mass level. Suppose a society divided in several segments on an ethnic and language dimension and a socio-economic dimension. Political stability is unlikely to occur if these divisions coincide (i.e. people belonging to one ethnic group all fit in the same socio-economic group). Belgium used to be a good example of this, having ethno-linguistic subgroups coinciding with socio-economic classes (Dahl 1966: 369).

Yet, in the Netherlands, pillarisation prevented such cross-pressures at mass level. Nevertheless, Dutch democracy is stable and effective. Lijphart (1968) showed in his *Politics of Accommodation* that social heterogeneity does not need to be balanced at the same (mass) level; it can also be compensated at elite level. In a segmented society, elite competition would lead to a centrifugal democracy. To prevent this, political elites cooperated in the past which can, by and large, be understood in terms of rational behaviour: Elites have more to lose than to gain from an open struggle. Hence, self-interested behaviour of each actor becomes identical to collective action or finding the 'core'¹.

Consociationalism was studied by Lijphart as well as by Lehmbruch (1967; 1974) and Steiner (1970). Lehmbruch (1967; 1974) also replied to Almond's distinction between two-party and multi-party systems, by developing a third type of political system; the non-competitive pattern of amicable agreement. The majority principle is not applicable in all countries, (e.g. Switzerland and Belgium). Public office in these countries is apportioned among all important linguistic groups and regions or religious denominations.

Negotiated agreement appears to be the only possible means by which civil peace can be presented. A deadlock can be overcome in two ways:

- 1 The political system is divided on a regional or functional basis in which the actors may be free to realise the preferences held by respective groups.
- 2 The actors may agree on larger scale barter similar to package deals.

These are two possible methods of conflict management to save the existence of the political system. *Proporzdemokratie* is a non-competitive system, which settles issues by *amicabilis compositio*, that is by negotiated agreement rather than by majority.

The most interesting part of the *Proporz* system is how the political problems and conflicts are solved on the collective level. Starting point for all *Proporz* systems is the distribution of offices according to the principle of parity or *Proporz* of the rivalling groups. In Switzerland, the proportional distribution of offices (the magic formula of distributing portfolios in coalition governments) is a protection of minority-groups. This *Proporz* can have different forms. Different groups have equal representation, each group can have its own domain or offices rotate between all parties.

Hence, there is a variety of institutional conditions to avoid conflict and stalemates and to produce an equilibrium. In his *Democracies in Plural societies* Lijphart (1977: 106) elaborated on a new typology, which also contained his own consociational democracy. This implied a shift from single country studies to comparative analysis of democratic regimes that were not or could not be seen as pluralistic regimes (Almond 1956).

Table 2.1 Lijphart's typology of democratic regimes

		<i>Structure of Society</i>	
		Homogeneous	Plural
<i>Elite behaviour</i>	Coalescent	Depoliticised Democracy	Consociational Democracy
	Adversarial	Centripetal Democracy	Centrifugal Democracy

Source: Lijphart (1977: 106)

Centrifugal and centripetal types correspond to Almond's Continental European and Anglo-American types respectively. The consociational type represents coalescent elite behaviour in a plural society, whereas, the depoliticised type represents a type of democracy, that is characterised by 'closed shop' bargaining of homogeneous societies to avoid stalemate, e.g. Sweden.

'The trend seemed to be toward a lessening of ideological and religious tensions and a simultaneous increase in coalescent decision-making'
(Lijphart 1977: 106).

According to Lijphart (1977: 107) all four types of democratic regimes can be related to different degrees of political stability. His main interest in the study of political systems was the question to what extent political systems contribute to political stability. He expected that the centrifugal type of democracy will lead to instability, whereas centripetal and consociational types are stable democracies. In his view the stability of the depoliticised type of democracy is less than expected. The use of these kinds of vague concepts of stability lead to very general conclusions which need further specification. Lijphart (1977: 4) defined political stability as a multidimensional concept combining system maintenance, civil order, legitimacy and effectiveness of governance. This definition was based on Nordlinger (1972). In his most recent book *Patterns of Democracy* Lijphart (1999: 300) argues that consensus democracy makes a difference with regard to almost all of the indicators of democratic quality.

Lijphart (1977) empirically found some conditions favourable for the stability and democracy of a plural society. The small size of a country, the existence of external threats, a balance of power among the subcultures, a multi-party system with segmental parties, some cross-cutting cleavages, overarching loyalties, a representative party-system, isolation of the segments from each other, and traditions of elite accommodation. An alternative way of testing the pros and cons of different democracy types is to examine the relation between types of democratic systems and types of public policy, as proposed by Peters, Doughtie & McCulloch (1977). In 1999 Lijphart also focused on the relation with socio-economic management.

Lijphart used his concept of consociational democracy in both empirical and normative analysis. It helped to explain political stability that actually occurs in countries where pluralist theory predicts instability. Consociationalism has also been used as a normative model for plural societies in new democracies in Southern and Eastern Europe and some developing countries. Lijphart disputed the artificial contrast that was made between the democracies in the First World and the Second or Third World. His idea was to develop a consociational prescriptive model that could be applied to plural societies in countries outside of the First World. Lijphart (1977: 153) considered Lebanon and Malaysia as evidence for the applicability and feasibility of consociational democracy in these countries.

The consociational type of democracy can be summarised in four central features:

- *grand coalition*

The grand coalition cabinet is the most typical and obvious consociational solution for a fragmented system. The elites of all segments cooperate in a grand coalition to make peaceful agreements. Grand coalitions are formed to allow a role for

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minorities. These groups have to compromise in order to make package deals, since there is not a majority. The opposite of the coalescent style of leadership in the consociational model is the so-called competitive majoritarian model. This model satisfies the condition of Riker's size principle which predicts the occurrence of minimum winning coalitions (Riker 1962).

- proportionality

Consociational democracy deviates from the principle of the majority rule. In deeply divided societies, majority rule can lead to instability and neglect of minorities. Proportionality is used as the main principle in distributing offices and money among rivaling groups. In Switzerland for example, a magic formula had been developed to distribute the portfolios of the government, while in the Netherlands proportionality is important at the electoral level. The low threshold² allows small parties to receive seats in parliament.

- segmental autonomy and federalism

Grand coalitions deal with the most important political issues of a country. Less important issues are left to regulation by its segments. Other segments have no right to intervene in the less important issues of other segments. Segmental autonomy can be realised by means of territorial federalism, of which Belgium is a good example, or by means of functional autonomy, such as in the Netherlands.

- mutual minority veto

The mutual minority veto can give each segment a guarantee for political protection. This veto can lead to a minority tyranny. Lijphart (1977), however, is quite optimistic about the threat of a deadlock in decision-making caused by vetoing minorities. In his opinion every segment will have sufficient awareness to prevent this from happening, as the veto is mutual; all will be hesitant to use it. However, when the actual use of an instrument is limited to its threat, its actual power becomes extremely limited.

Lijphart's consociational theory is a kind of behavioural explanation of political culture based on sociological analysis. Potential conflict between the subgroups in society is avoided by cooperation between the representatives of the subgroups at elite level. This cooperation is a specific institutional arrangement between the elites of a country to adjust the working of the formal institutions. The next section shows how Lijphart transformed his explanation of Dutch consociational political culture into a general institutional democratic model.

2.3 Lijphart's consensus versus majoritarian model of democracy

In 1984 Lijphart presented his model of consensus versus majoritarian democracy for the first time. In 1999, he revised and expanded it. The indicators proposed by Lijphart in his work are recalculated in this section for a set of twenty countries in the years 1965 to 1998. Later in this chapter, Lijphart's operationalisation will be evaluated and a new index of consensus democracy is presented.

Work on consociationalism and consensus democracy must be understood by its developments through time. In the beginning, consociationalist theory was limited almost exclusively to a description of several critical and crucial case studies. The main objective was to explain why stable democracies actually did occur in certain strongly segmented countries and could not be explained within the pluralist framework at that time. Hence, consociationalist theory explained how political stability is indeed possible in a divided society. Three different types of explanation were developed: from the social structure (Lorwin), as a pattern of elite behaviour (Lijphart) and from historical circumstances (Daalder). Lijphart's next step was to develop an institutional model that could be applied to a wider set of countries. In *Democracies* (Lijphart 1984) and *Patterns of democracies* (Lijphart 1999), a distinction is made between two political-institutional models of democracy: consensus democracy versus majoritarian democracy. The main features of consensus democracy are the existence of an institutional context in which major groups in society have a possibility to participate in its political system and that conflicts are solved in a cooperative manner. In contrast to this consensual manner of political problem-solving, the majoritarian model of democracy consigns all political dominance in both parliament and government to one group, but only for a limited time.

By moving from consociational democracy (1977) to consensus democracy (1984) Lijphart not only shifts towards the method of cross-national comparison; he also moves from a focus on the structure of society to a comparative analysis of the institutional arrangements. Lijphart (1977) is a description of consociationalism in several countries. The basis of political culture is formed by the structure of society. The conditions leading to a stable system are examined. Lijphart (1984) is a shift from society to institutions and to the operationalisation of the institutional conditions that affect the degree of consensus democracy.

In 1999 Lijphart made several adjustments of his earlier framework in *Democracies*. First of all, he increased the number of countries from 21 to 36. Secondly, he adjusted some indicators, while others were added or deleted. The third and genuinely new element is that it contains an analysis of the impact of the consensus and majoritarian model on respectively socio-economic and democratic performance.

Table 2.2 Lijphart's features of consociationalism and consensus democracy

Consociationalism	Consensus democracy	
1977	1984	1999
Grand coalition	Oversized coalition Cabinet duration Effective number of parties Number of issue dimensions	Oversized coalition Cabinet duration Effective number of parties
Proportionality	Proportionality	Proportionality
Mutual minority veto	Bicameralism Rigid and written constitution	Bicameralism Constitutional rigidity Judicial review
Segmental autonomy	Decentralisation/ federalism	Decentralisation/ federalism
	(Direct democracy)	
		Interest group system
		Central bank independence

Source: Lijphart (1977; 1984; 1999)

Table 2.2 shows the connection between Lijphart's three models. In 1977, he started with four essential features of consociationalism: grand coalition, proportionality, mutual minority veto and segmental autonomy. Both in 1984 and 1999, the first feature of grand coalition was operationalised by the proportion of oversized coalitions and average cabinet duration. The effective number of parties can be related to both grand coalition and proportionality. Grand coalitions rarely occur in a two-party system and a proportional electoral system tends to increase the number of parties. In 1999, the number of issue dimensions was deleted as an indicator. Mutual minority veto was operationalised by bicameralism and a rigid constitution. In 1999, this last indicator was subdivided in two new ones: constitutional rigidity and judicial review. Segmental autonomy was operationalised by decentralisation and federalism. In 1999, interest group system and central bank independence were added as two new indicators. In 1984 a ninth variable, referendum, was discussed, but removed from the model on empirical grounds³.

Lijphart (1984; 1989; 1999) derived his operationalisation of the consensus model by taking the features of the Westminster or majoritarian model. This model is based on the principle which concentrates as much political power as possible in the hands of the electoral majority. Consensus democracy is regarded as the opposite type. Its main principle is that different segments have every opportunity to participate in both legislative and executive power. Two dimensions are distinguished. The first executive-legislative dimension deals with the relationship between government and parliament. The second federal-unitary dimension relates to the degree of territorial segmentation. Each dimension is operationalised by five indicators. The ten indicators of Lijphart's model of consensus versus majoritarian democracy are reported in Table 2.3.

Table 2.3 Lijphart's indicators of consensus versus majoritarian democracy

Majoritarian democracy	Consensus democracy
<i>Executive-parties dimension</i>	
1 Concentration of executive power in single-party majority cabinets	1 Executive power-sharing in broad multiparty coalitions
2 Executive dominance	2 Executive-legislative balance of power
3 Two-party system	3 Multiparty system
4 Majoritarian and disproportional electoral system	4 Proportional representation
5 Pluralist interest group system	5 Corporatist interest group system
<i>Federal-unitary dimension</i>	
1 Unitary and centralised government	1 Federal and decentralised government
2 Unicameral legislature	2 Bicameral legislature
3 Flexible constitution	3 Rigid constitution
4 Judicial review by legislation	4 Judicial review by supreme or constitutional court
5 Central banks dependent on executive	5 Central bank independence

Source: Lijphart (1999: 3-4)

In *Democracies* (Lijphart 1984) the consensus versus majoritarian models of democracy are used to analyse twenty-two political regimes in twenty-one countries⁴. In *Patterns of democracy* (Lijphart 1999) this was extended to thirty-six cases. Based on eight indicators Lijphart (1984) identifies two dimensions of consensus democracies. The first dimension characterises executive-legislative

relations and is measured by the proportion of minimal winning cabinets, average cabinet durability, the effective number of parliamentary parties, the number of ideological issue dimensions, and the proportionality of the electoral system. The second dimension is a federal-unitary scale measured by the proportion of tax collected by central government, constitutional flexibility, and unicameralism. In *Patterns* (Lijphart 1999) the number of indicators to measure consensus democracy increased to ten.

Due to the way Lijphart has operationalised consensus democracy, the dynamics of the measurement is rather limited. For most of his indicators, he uses averages between 1945 and 1996. He does not measure for more than two periods: 1945-70 and 1971-96 (Lijphart 1999: 253-257). In the assessment that follows the scores of the ten indicators are calculated differently than in Lijphart (1999). Instead of averages over 1945-96, annual scores for twenty countries are calculated for each year from 1965 to 1998. For this reason, some of the variables have to be calculated differently. In this evaluation the main differences with Lijphart's calculations are a smaller set of countries, a shorter period, and annual scores on the variables. The aim of this replication is to make Lijphart's model sensitive to time and to assess its overall validity. These scores are used to evaluate his model and most importantly, to develop a different operationalisation of the whole concept. Section 2.5 presents a new operationalisation of consensus democracy.

Evaluating Lijphart's model

In 1999, Lijphart refined his 1984 model. Its main purpose, the division of the world in two types of democracy (consensus versus majoritarian) remained the same. Two variables did not return in Lijphart (1999). First of all, the number of issue dimensions was disregarded as an indicator of the first (executive-legislative) dimension. This variable was replaced by interest group system, which is obviously something completely different. This variable is based on Siaroff's index of integration of the economy (Siaroff 1999). This variable is discussed in Chapter 3. The second omitted indicator, referendum democracy, was actually already deleted after the factor analysis in 1984. Originally a third dimension, including the indicator of referendum democracy, was constructed but Lijphart (1984: 30-31) omitted this variable because direct democracy could not be used to make a distinction between the majoritarian and the consensus model.

Both in 1984 and 1999, Lijphart used five indicators to measure the first dimension. The measurement of the second dimension expanded from three to five indicators. Constitutional flexibility was split into two separate variables. A new variable is central bank dependence. This leads to an operationalisation of five indicators for each of the two dimensions.

It is rather surprising to enumerate the characteristics of majoritarian democracy in order to operationalise consensus democracy. It might be expected that Lijphart would have elaborated a direct operationalisation of the features of consociational democracy. Apparently, these features are too broad and too multi-interpretable. However, Lijphart (1989: 39-41) tries to clarify the relationship between these two concepts. He makes the following connections between the features of consociational democracy and the characteristics of consensus democracy: grand coalition with executive power-sharing, executive-legislative balance, multi-dimensional and multi-party system; proportionality with proportional representation; segmented autonomy with federalism and decentralisation and minority veto with a rigid constitution and bicameralism (see Table 2.2).

The indicators of the first dimension have been recalculated for twenty countries for each year between 1965 and 1998. Table C.1 (Appendix C) contains the average values over this time period for each country. The last column shows the standardised sum of the z-scores of the five indicators, which is the first dimension of Lijphart's consensus democracy. For this measurement of the first dimension, the following formula was used. Dimension 1 of Lijphart's consensus democracy is the sum of the z-scores of:

- the effective number of parliamentary parties;
- the proportion of minimal winning and one-party cabinets;
- cabinet durability;
- disproportionality;
- integration of the economy⁵.

In Table C.2 (Appendix C), first the average scores for the countries are calculated and, second, the dimension scores are the sums of these averages. Countries are placed on both dimensions in Figure 2.1.

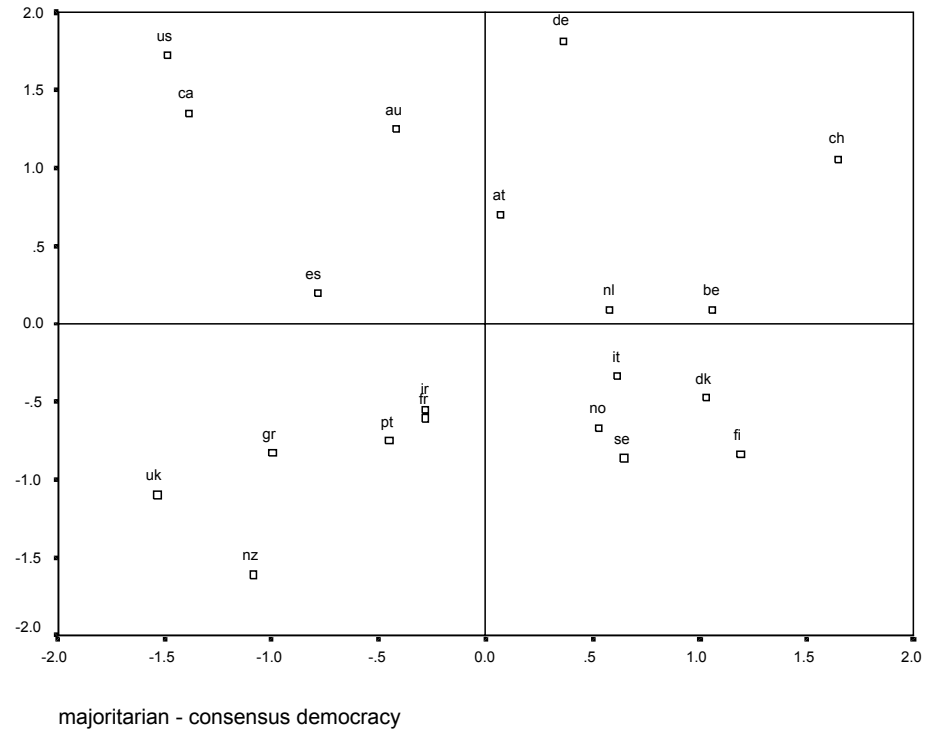


Figure 2.1 Two-dimensional map of twenty countries on two dimensions of Lijphart's consensus democracy (1965-98)

Countries rank from federal (top) to unitary (bottom) and majoritarian (left) to consensual (right)

Based on own calculations

Country labels: at = Austria, au = Australia, be = Belgium, ca = Canada, ch = Switzerland, de = Germany, dk = Denmark, es = Spain, fi = Finland, fr = France, gr = Greece, ir = Ireland, it = Italy, nl = the Netherlands, no = Norway, nz = New Zealand, pt = Portugal, se = Sweden, uk = United Kingdom and us = United States.

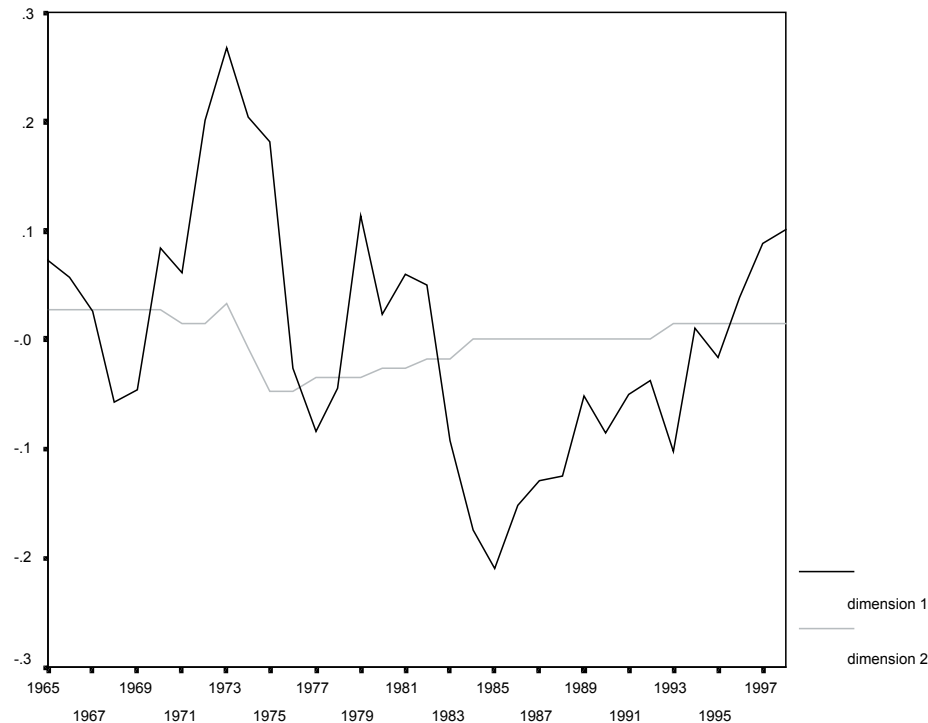


Figure 2.2 Average scores of twenty countries on the two dimensions of Lijphart's consensus democracy (1965-98)

Based on own calculations.

Dimension 1 is executive-legislative and dimension 2 is federal-unitary.

Figure 2.2 shows the variation of the average scores on both dimensions for twenty countries. There is considerable variation over time on dimension 1. The peak in consensus democracy in the early is probably due to high electoral fragmentation. In the 1980s we see a decline of the effective number of parties and a rise in minimal winning coalitions. Almost by definition, the indicators of the second dimension are more static.

Table C.2 (Appendix C) reports the scores on the indicators of the second dimension. These scores are calculated in the same way as in Table C.1 (Appendix C). The second dimension of Lijphart's consensus democracy is the sum of the z-scores of:

- federal and decentralised government;
- bicameralism;
- constitutional rigidity;
- judicial review;
- and central bank independence.

Lijphart did a factor analysis based on the ten indicators of consensus democracy for thirty-six countries. What will happen if the twenty countries that appear in this study, are scrutinised by means of a factor analysis in the period 1965-98? Table 2.4 shows the factor scores of the variables for the factors that were extracted by a principal component analysis. The method of extracting factors is the same as used in Lijphart (1984; 1999) by varimax rotation with Eigenvalues over 1.

Table 2.4 Factor analysis of recalculated indicators of Lijphart's consensus democracy (1965-98)

Factor	1	2	3
Effective number of parliamentary parties	-0.68	0.52	-0.01
Minimal winning & single-party cabinets	0.79	-0.42	-0.06
Cabinet durability	0.77	0.13	0.18
Disproportionality	0.00	-0.88	-0.08
Integration of the economy (Siaroff 1999)	-0.28	0.83	0.04
Federal and decentralised government	0.07	0.15	0.94
Bicameralism	-0.19	-0.27	0.84
Constitutional rigidity	-0.02	0.21	0.85
Judicial review	0.37	-0.13	0.68
Central bank independence	0.13	0.17	0.80

Source: own calculations based on Lijphart (1984; 1999).

Note: Factor analysis based on varimax extraction with Eigenvalues > 1

The results of this factor analysis deviate from Lijphart's output (1984: 214, Table 13.1; 1999: 246, Table 14.2). The most striking difference with Lijphart's analysis is that not two, but three factors are extracted with Eigenvalues over 1, although the Eigenvalue of the third factor is only slightly larger than 1. Obviously, a smaller set of countries and another time period is used but still the result is puzzling. For 1984 and 1999 Lijphart reported a factor that confirmed his parties-executive dimension consisting of five variables. In the analysis reported in Table 2.4, this factor is split into two different factors. It seems that disproportionality and integration of the economy are not on the same dimension as the effective number of parties, minimal winning cabinets and cabinet durability. This indicates that using corporatism (operationalised as integration of the economy) as one of the indicators of consensus democracy might be problematic. It is, however, more

difficult to explain why disproportionality does not belong to the same factor. The third extracted factor matches Lijphart's second dimension. The variable central bank independence seems to fit the federal-unitary factor as well. Central bank independence must be considered a completely different phenomenon with little logical affinity with consensus democracy.

The conclusion based on this analysis must be that even the slightest deviations of the variables immediately appear to produce different outcomes of the factor analysis. Apparently only a specific configuration of variables leads to the same results that Lijphart generated. Or to put it differently, the logic may be compelling, the validity - as is shown - can be questioned, and the reliability of this type of procedure is quite low.

The placement of the countries in Figure 2.1 can be compared with the conceptual mapping in Lijphart (1999: 248). Positive scores in Figure 2.1 indicate consensus democracy, whereas in Lijphart's factor analysis negative scores indicate the same. The top right corner of Figure 2.1 shows Switzerland as a clear case of a country that scores high on both dimensions. In Lijphart's analysis, Switzerland is also the most typical case of consensus democracy. Belgium, the Netherlands, France and Italy have almost the same placement. In the bottom left corner, New Zealand, United Kingdom and, to a lesser extent, Greece can be considered majoritarian on both dimensions. This matches the mapping by Lijphart. The top left corner contains the majoritarian-federal countries United States, Canada, Australia, Germany, Austria and Spain. In Figure 2.1, the United States is much more majoritarian on the first dimension than in Lijphart's analysis. The countries in the bottom-right corner of Figure 2.1 are located close to the centre

Dividing consensus democracy in two dimensions appears to be hazardous. First, they are two separate concepts. Second, replicating the factor analysis with recalculated data leads to three, instead of two, dimensions. Third, according to this scatter diagram, it can be argued that the federal-unitary dimension does not contribute to a more adequate ranking of the countries on the consensus versus majoritarian scale. If we only consider the executive-legislative dimension 1, we find the typical majoritarian cases (USA, Canada, UK and New Zealand) to the left. To the right we find Switzerland, Denmark, Belgium and Finland. Viewing the two-dimensional map from the perspective of the federal-unitary dimension, we find Germany, USA, Canada, Australia and Switzerland at the top. These countries have only one thing in common: they are federal and decentralised states (Keman 2000). The institutions in this group cannot be considered as consensual and of the same type. At the bottom of the figure we find Portugal, Greece, Sweden, Finland, UK and New Zealand. This group of countries shares one important

feature. Their governments belong to the most highly centralised⁶. Because of this, the federal-unitary dimension can be deleted from the operationalisation of consensus democracy, since it basically refers to the implementation of policy choices made within the polity. Not consensus formation is the crucial feature, but rather co-governance, which may or may not represent an additional feature of policy performance.

Another crucial issue regarding the measurement of consensus democracy is of course its persistence over time. We are therefore interested in how the scores on consensus democracy vary through time. There are considerable differences in variation between all countries. Switzerland has the lowest variation, whereas variation is highest in France, Belgium, the Netherlands, New Zealand and Portugal. Hence, and this is important, this finding demonstrates that the interaction between actors and institutions in the reviewed countries is not stable, but subject to change. When and how the relationship between formal and informal rules changes (or not) is examined by a dynamic use of the conceptual model. This has important consequences for analysing the eventual performance of consensus democratic politics in terms of policy formation. This type of institutional dynamics and its consequences is examined in the case analysis, since cross-national and cross-time methods cannot reveal these properly.

Figure 2.2 shows the variation of the mean of the analysed countries between 1965 and 1998. It is not surprising that the means of the second dimension are stable. The scores of the first dimension show much more variation. In first half of the period (with the exception of the late 1960's) the scores on the first dimension are positive, whereas these scores are negative in the second dimension. This can be interpreted as a decline of the first dimension of consensus democracy for this group of countries. The second dimension is less dynamic than the first, because most indicators are laid down in the constitution. These findings show that examining the cross-time developments of (the first dimension of) consensus democracy is significant. The second dimension of consensus democracy can be seen as a constant (over time), which therefore does not vary. Hence it is a structural feature of political institutions in the cases under review here.

2.4 Assessment of Lijphart's operationalisation of consensus democracy

Although this study is strongly inspired by Lijphart's work on consensus democracy, a few of his ideas need adjustment. These adjustments concern the operationalisation of consensus democracy as well as the introduction of a distinction between institutions that exist in a political system that can contribute to a consensual institutional context (such as the number of effective parties and

the system of proportional representation) and informal institutions which can characterise behaviour typical for a consensual style of politics (such as type of government coalition).

The main criticism on Lijphart's work on Dutch *consociationalism* deals with his overemphasis on the prudent role of political elites. The leaders of the Dutch pillars were fully aware how difficult it would be to overcome ideological and religious differences between the segments in Dutch society. They agreed on a package deal of fundamental issues which had to be regulated and developed a set of informal rules for decision-making (oversized coalition, extreme proportionality, mutual minority veto and segmental autonomy). The most crucial point was the passive role of citizens. People belonged to a single pillar with only limited up- and downward mobility. The pillarisation of Dutch society was not a given fact but it was stimulated and organised by its elites to legitimise their leading role and give them political power. Hence, the role of the political elites was not only to overarch differences, but also to maintain them in order to safeguard their dominant position in pillar organisations and their representative role in political decision-making (Daalder 1995).

In *Democracies*, Lijphart (1984) developed consociational theory into the comparative model of *consensus democracy*. Lijphart took the opposite model, Westminster or majoritarian democracy, as his starting point. This model is operationalised by eight indicators. Its operationalisation is ambiguous. It can be understood in different ways. For example: does a large number of electoral parties indicate a plural society? Is a consensus model of democracy therefore needed? Or does it indicate that political institutions allow for the manifestation of many parties? In other words, does a large number of parties indicate a basis for consensus democracy which will consequently lead to a fitting institutional model? Or does it indicate that such an institutional model did develop? Does cabinet stability indicate - as Lijphart argues - that a single party has all political power, by which it proves to be a majoritarian democracy. Or is it an indicator of the accommodating behaviour of the elites, proving that it is a consensus democracy? Or is a lack of cabinet stability an indicator of consensus democracy - as Lijphart supposes? In essence, there is no distinction between cause and effect of the institutional setting.

Another problem is that many of the indicators used are highly interrelated. First, there is a strong - theoretical and conceptual - relation between the proportionality of the electoral system on the one hand and the effective number of electoral

parties and the number of ideological issue dimensions on the other hand. Second, the number of parties and the number of issues are strongly related to types of government coalition and cabinet duration (see also Armingeon 2002).

As stated before, Lijphart's approach lacks a strong dynamic perspective. If an institutional model can contribute to more political stability and better socio-economic performance, it becomes very important how this changes through time. What is needed, therefore, is an operationalisation that also allows measurements through time.

Figure 2.1 demonstrates that the federal-unitary dimension adds little to a better understanding of the countries on the consensus versus majoritarian democracy. This leads to the conclusion that there is no clear connection between the executive-parties dimension of consensus democracy and federalism. Unitary states do not tend towards a specific kind of legislature chamber format, such as unicameralism or asymmetrical bicameralism (Lane & Ersson 1994a: 71). The federal dimension has not only conceptually an entirely different meaning, it must also be empirically separated from the parties-executives dimension, since it does not lead to a classification which makes more sense than one without this federal-unitary dimension. This does not mean that federalist structure is not relevant for, for example, protecting the rights of minorities and for the articulation of their preferences. Yet, it must be seen as something different than a consensual institutional arrangement between political and social interests and actors. The constitutional structure is important but not intrinsic to consensus politics. Sections 2.3 and 2.4 discuss Lijphart's operationalisation of consensus democracy. On the basis of my criticism, section 2.5 presents a new way of measuring consensus democracy.

2.5 Definition and operationalisation of consensus democracy

The model of consensus democracy has been used to analyse the working of political systems. The focus of most of these studies was merely on conditions that could explain the occurrence of different political systems and their effect on democratic stability (Lijphart 1984; Lane & Ersson 1997). The focus in this study is extended in two respects. First, the working of the system of political decision-making – translating preferences into collective decision-making – is related to policy concertation among organised interests. Reason for this is to uncover a possible relationship between consensual institutional arrangements in the system of political decision-making and policy concertation among organised interests. In most of the literature only general hypotheses are put forward that these two can be related (Schmidt 1982; Armingeon 1983; Keman 1984; Lijphart & Crepaz 1991;

Czada 1987; Keman & Pennings 1995). This study focuses on the nature of the relation between these institutions. Is there a direct relationship between the type of political system with the system of socio-economic policy-making? It is therefore important to take a second system in socio-economic policy-making into account: policy concertation among organised interests, including bargaining between workers and employers. This is discussed in Chapter 3 and the linkages between consensus democracy and corporatism are discussed in Chapter 4. Second, the effect on socio-economic policy formation is also taken into account, which is the topic of Chapter 5. The reason to include policy outputs in the analysis is that it is expected that actors' behaviour is driven by possible gains and losses that result from policy performance. Being aware of the available outcomes of the game, actors may anticipate by creating certain institutional arrangements, which can be seen as an agreement on a certain subject for a specific time between specific actors. Such agreements will not necessarily lead to positive outputs: negative outputs can also be produced by decision costs and there will be uncertainty about the actual distribution of the outcomes among the actors. The process of institutional change will be analysed in more detail in Chapters 7 to 10, by means of case analysis. There we focus explicitly on behavioural aspects.

Consensus democracy is a special institutional arrangement between actors to cope with instability in the political system. The degree in which such institutions exist in a political system can vary between countries and through time. However, it must be stressed that the extent to which actors can influence institutions is limited because of their inflexibility. In other words, actors have only limited power to change institutions and the reason for institutional change is motivated differently. Consensus democracy is not an absolute state of an institutional context, but it can be used to compare political systems on the degree in which their institutions have consensual elements.

Recall that we have made a distinction between formal and informal institutions. How are formal institutions used, which in our view shape institutional arrangements? Informal institutions are the result of actual behaviour of actors in order to adjust the working of the formal rules. Combining informal institutions with formal institutions serves two goals. First, informal institutions will in part reflect the behaviour of the actors, so that it is possible to discover whether or not institutional arrangements are the result of consensus-seeking behaviour of the major political actors. This point is crucial in our argumentation. In Lijphart's first work on Dutch consociational democracy (Lijphart 1968) it appeared almost a miracle that political elites came together and were able to solve deep conflicts. Second, it can be expected that if the behaviour of the actors is explicitly incorporated in the analysis, more variation will

be discovered over time. This enables - in addition to the traditional cross-national comparisons - a more dynamic analysis. This diachronic approach to consensus democracy may answer questions as to how political institutions matter and how the working of institutions can be understood. With these considerations taken into account, consensus democracy is defined as follows:

Definition: Consensus democracy is an institutional arrangement of political decision-making, including both formal and informal institutions, which are based on cooperation rather than conflict between the actors involved.

This definition implies on the one hand that institutions affect behaviour of actors with regard to decision-making and on the other hand that actors are able to affect how institutions are used and maintained. The central elements of consensus democracy that have consequences for the operationalisation are:

- both formal and informal institutions are seen as important;
- institutions are not static, but can change over time;
- two-sided relation between actors and institutions: institutions affect behaviour of actors and actors affect which institutions are adjusted.

Formal rules can be examined in two ways: looking at rules, procedures and constitution in written form and by analysing the effects of these rules. This type of information is gathered and used for comparative analysis. Data are collected for each year between 1965 and 1998, thereby allowing an analysis through time. The measurement of consensus democracy as used here does not include the informal rules as such, but the effect of these rules. Grand coalitions are an example of this. Several country studies have shown that political elites have the informal rule in use that coalitions are formed larger than necessary for a majority. The comparative analysis does not measure this informal agreement, but it measures the oversizedness of coalitions. Incidence of grand coalitions indicates that political elites are likely to have made such an informal agreement. The working of informal rules and related behaviour are verified in the case analysis in Chapters 7 to 10.

The central characteristics of consociational democracy according to Lijphart are: proportional representation, surplus coalition, segmental autonomy and protection of minorities. The first two features are used to construct an alternative empirical model of consensus democracy, while the latter two are discussed later:

Proportional representation is operationalised by means of:

- a1 Parliamentary fragmentation: effective number of parliamentary parties (a high number is indicating more consensus democracy)
- a2 Disproportionality: reduction of proportionality (consensus democracy is expected to have a lower level of disproportionality)
- a3 Electoral system: classification from proportional to disproportional

Oversized coalitions are represented by:

- b1 Type of government: from oversized to minimal winning coalitions
- b2 Dominance of the government over opposition: surplus of the proportion of seats of a government coalition.

In selecting the variables for the operationalisation of consensus democracy the theoretical framework is important. This framework emphasises that actors can change their behaviour and alter institutional arrangements on the basis of their preferences. Especially the type of coalitions that are formed is subject to changing behaviour of actors. Moreover, the type of coalition that is created is not only determined by the actors' preferences about policy choices. A political or socio-economic crisis for example can also increase the willingness to create broad coalitions.

Several indicators that were used by Lijphart are not used for this new operationalisation. It concerns the following:

- Cabinet durability: this is an *effect* of institutions and not a *feature* and is therefore not used for the operationalisation of consensus democracy.
- Number of issue dimensions: this variable measures the fragmentation of political *culture*, but it has little to do with political institutions. It can be related to electoral fragmentation, but it is nothing but a typical condition of consensus democracy.
- The federal-unitary dimension, measured by the variables unicameralism, fiscal centralisation and constitutional flexibility, is not the same as consensus democracy. This dimension is not relevant since it measures the degree in which segments have certain autonomy and how strong minorities are protected.
- The degree to which minority groups are represented in parliament can be measured adequately by the effective number of parliamentary parties.
- Interest group system, measured by Siaroff's index of integration of the economy, is not used as one of the indicators of consensus democracy. Corporatism is analysed in Chapter 3 as a separate institutional model.

Hence, for reasons of internal logic the following indicators are used to measure consensus democracy over time.

Type of government

Woldendorp, Keman & Budge (2000) have developed this indicator to make a distinction between different forms of coalitions: single party government, minimal winning, single party minority, multiparty minority, surplus and caretaker government. This variable is recoded in a variable that ranges in scores from 1 (minimal winning or single party government) to 4 (oversized coalition). It follows that high scores on this variable indicate the potential presence of consensual practices. In consensual institutional arrangements there is no drive for minimal winning coalitions or single party governments.

Minority governments are considered to be somewhere in between minimal winning and oversized coalitions. Single party minority cabinets are placed closer to minimal winning and single party government and are scored 2. Multiparty minority governments are placed closer to oversized cabinets, since more parties are involved and are scored 3. It remains problematic to place caretaker governments on this scale. Since there are only five cases of a caretaker government, they have been replaced by the nearest score in the same year⁷.

Reduction of proportionality

Many different indices of disproportionality have been developed (Taagepera & Shugart 1989; Pennisi 1998; Lijphart 1994). A very simple, but rarely used, variable is the relative reduction of proportionality derived from the effective number of parties. In the aggregation from votes to seats, larger parties receive, in most cases, a larger share of seats than their relative share of votes than smaller parties. In these cases this means that the effective number of parliamentary parties is smaller than the number of electoral parties.

Reduction of proportionality = (effective number of electoral parties – effective number of parliamentary parties) / effective number of electoral parties

The reduction of the effective number of parties is an effective index for the degree of disproportionality of the electoral system. Table 2.5 contains the mean scores of this reduction of proportionality.

Table 2.5 Scores on type of government, reduction of proportionality, electoral system and government dominance

Country	Effective number of parliamentary Parties	Type of government	Reduction proportionality	Electoral system	Dominance government over opposition
Australia	2.48	1.71	0.15	4	9.18
Austria	2.54	1.09	0.05	1	11.12
Belgium	6.66	1.44	0.11	1	12.02
Canada	2.36	1.18	0.25	6	5.99
Denmark	4.89	2.26	0.05	1	-9.24
Finland	5.16	3.5	0.1	1	15.78
France	3.33	2.94	0.33	4.8	11.09
Germany	3.06	1	0.06	2	5.77
Greece	2.19	1.14	0.23	1	6.62
Ireland	2.76	1.59	0.1	3	1.68
Italy	4.31	3.18	0.11	2	4.51
Netherlands	4.74	1.71	0.06	1	10.39
New Zealand	2.12	1	0.26	5.6	5.3
Norway	3.59	1.82	0.15	1	-6.06
Portugal	2.81	1.57	0.16	1	3.12
Spain	2.74	1.5	0.25	1	-0.03
Sweden	3.46	2	0.05	1	-8.92
Switzerland	5.48	4	0.1	1	31.65
UK	2.15	1.03	0.25	6	4.86
USA	1.92	1	0.06	6	0
Group mean	3.48	1.85	0.14	2.6	5.88

Scores are averages between 1965 and 1998.

Sources: Mackie & Rose (1991); Koole & Mair (1995); *Electoral studies* (several years) Woldendorp, Keman & Budge (1998; 2000) and own calculations.

Classification of the electoral system

Instead of measuring the effect of an electoral system, it is possible to develop a variable according to the following typology of electoral systems:

- 1 list proportional representation
- 2 mixed member proportional representation
- 3 single transferable votes (STV)
- 4 alternative vote⁸
- 5 plurality rules by means of two rounds
- 6 single member district with plurality rule (first past the post)

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These categories are ranked from most (1) to least (6) proportional. The list and mixed member proportional representation are most proportional, while two rounds of plurality votes and single member districts with plurality rule are the most majoritarian rules. The alternative vote (AV) can be classified as a majoritarian electoral system (Farell 2001: 50; 55-67) and STV as a proportional electoral system (Farell 2001: 121-152). The main difference between these systems is the district magnitude. AV-systems have single-member districts, while in STV-systems districts have more than one seat. AV-systems are majoritarian, because the elected candidate holds a majority (of at least 50%) of the votes.

Dominance of government over opposition

In addition to the type of government, it is possible to measure the degree to which a coalition is oversized. Most methods of calculating this factor are problematic. However, measuring the surplus of the coalitions is the simplest method. In other words: how large is the proportion of the government seats that are not necessary to receive a majority in parliament.

$\text{Domgov} = G/S \text{ in } \% - 50\%$

G is the number of government seats

S is the total number of seats.

This formula yields positive scores in the case of surplus coalitions and negative scores in the case of minority governments. This implies that according to this indicator minority governments are considered more majoritarian than minimal winning and surplus governments. Strom (1990) has demonstrated that minority governments are supported by one or more parties that are not associated with the coalition. These parties do not have government portfolios, but they support policy proposals. This means that de facto minority governments have a majority support in parliament, but it does not indicate that these parties have an agreement to construct an oversized or grand coalition. For this reason, despite the occurrence of minority governments, the indicator of dominance of government over opposition can be used to measure the extent to which actors aim at creating an oversized coalition.

Table 2.6 Bivariate correlations between the five indicators of consensus democracy

	1	2	3	4
1 Effective number of parliamentary parties				
2 Reduction proportionality	-0.37			
3 Electoral system	-0.64**	0.42*		
4 Type of government	0.74**	-0.13	-0.42*	
5 Dominance government over opposition	0.24	0.08	-0.01	0.11
** significant at the 0.01 level				
* significant at the 0.05 level				

Number of cases = 20

Correlation coefficients are Spearman's Rho

Source: own calculations based on Table 2.5.

Table 2.6 shows that, as could be expected, disproportional electoral systems have smaller numbers of parliamentary parties, whereas surplus coalitions coincide with larger numbers of parties, but are not correlated with disproportionality.

In the remainder of this study the following index of consensus democracy is used:

The degree of consensus democracy =

\sum [effective number of parliamentary parties + type of government + dominance government over opposition] – [reduction of proportionality – electoral system]⁹.

Higher scores on effective number of parties, type of government and dominance government over opposition indicate a stronger effect of institutions of consensus democracy, whereas higher scores on disproportionality and electoral system indicate a stronger presence of institutions of majoritarian democracy. The results of these calculations are summarised in Table 2.7 and Figures 2.3 and 2.4.

Table 2.7 Index of consensus democracy in basic statistics (1965-98)

Country	Mean	N	Std. Deviation	Range	Country label
Australia	-0.27	34	0.52	1.93	au
Austria	0.26	34	0.46	1.45	at
Belgium	1.08	34	0.49	2.17	be
Canada	-1.28	34	0.20	1.11	ca
Denmark	0.55	34	0.27	1.05	dk
Finland	1.41	34	0.43	1.79	fi
France	-0.53	34	0.63	2.15	fr
Germany	0.00	34	0.22	0.99	de
Greece	-0.44	24	0.26	0.91	gr
Ireland	-0.43	34	0.27	0.99	ir
Italy	0.68	34	0.55	1.68	it
Netherlands	0.85	34	0.57	1.99	nl
New Zealand	-1.38	34	0.36	1.38	nz
Norway	-0.11	34	0.22	0.92	no
Portugal	-0.11	23	0.35	1.20	pt
Spain	-0.47	22	0.26	0.84	es
Sweden	0.18	34	0.32	1.51	se
Switzerland	2.07	34	0.19	0.89	ch
UK	-1.41	34	0.14	0.50	uk
USA	-1.00	34	0.11	0.43	us
Total	0.00	647	1.00	4.43	

Country labels used in figures and plots are based on internet domain name extensions.

Source: own calculations based on Table 2.5.

Table 2.7 reports the mean scores on the index of consensus democracy between 1965 and 1998 for each country and the total mean, which is by definition 0. Furthermore, the table reports the number of scores for each countries, the standard deviation, the range – which is the difference between maximum and minimum scores – and the country label as used in the figures.

Figure 2.3 shows the box plots of twenty countries, which are ranked from most to least consensual¹⁰. The ranking of the countries in Figure 2.3 from consensus to majoritarian democracy overlaps Lijphart's classification to a large extent, but differs in several cases. The largest difference can be found in the placement of Norway, which scores lower on this index of consensus democracy than on Lijphart's index. This can mainly be explained by the high proportion of minority governments in Norway. The four cases that are analysed in Chapters 7 to 10 are dispersed over the consensus versus majoritarian scale. The Netherlands has the strongest degree of consensus democracy, while New Zealand clearly belongs to majoritarian democracy according to this measurement. Sweden and Portugal are located in between.

This index of consensus democracy is valid, reliable and parsimonious and it represents the comparative framework to assess the relations between institutions and possible room to manoeuvre of actors. In this way consensus democracy is based on the core characteristics of consensual institutions of political decision-making. Moreover it enables dynamic measurement, which is presented in Figure 2.3. Note the cross-national differences. Political decision-making classified as consensus and majoritarian democracy diverge in this respect, indicating change of institutions.

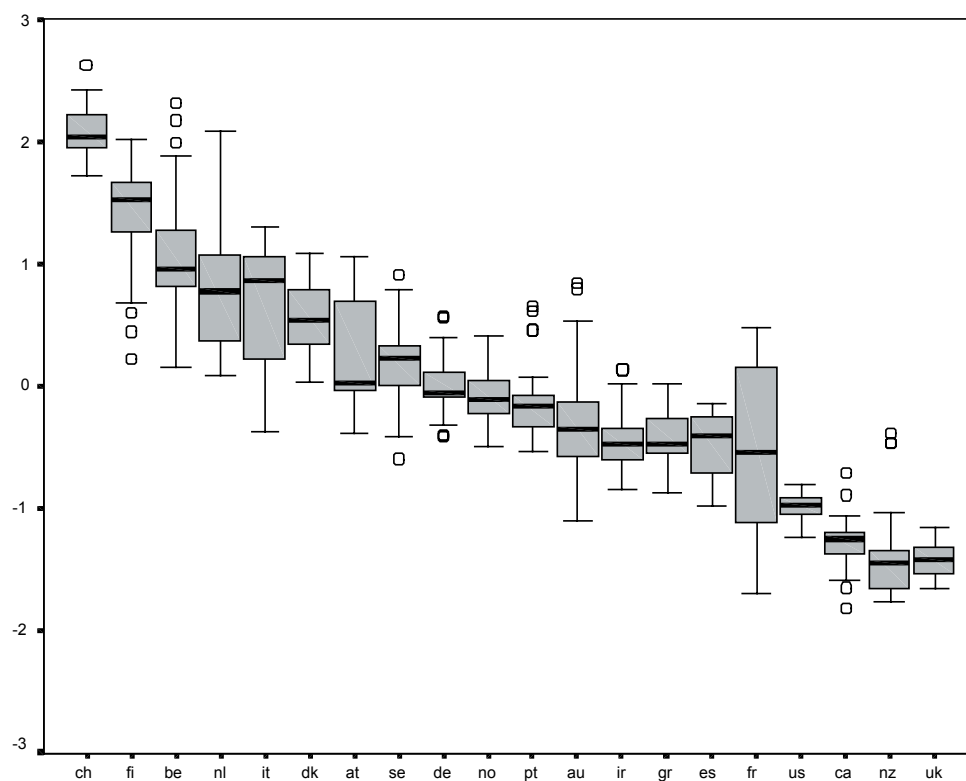


Figure 2.3 Variation on the index of consensus democracy across twenty countries over time (1965-98)

Country labels see Table 2.7. For explanation of a boxplot see Appendix C, Figure C1, page 235.

Figure 2.3 shows that variation over time is non-constant for each country. The variation is highest in the Netherlands, France, Italy and Australia. The UK and the US show the most stable patterns through time.

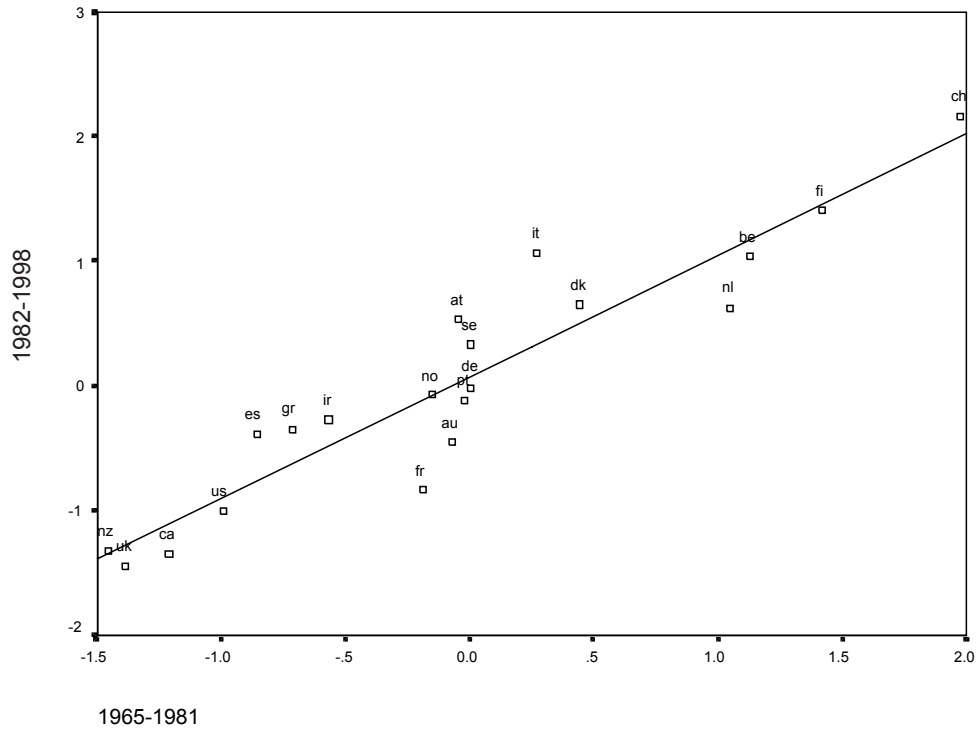


Figure 2.4 Index of consensus democracy in two time periods (1965-81 versus 1982-98)

Based on own calculations. Country labels see Table 2.7.

In Figure 2.4 countries are drawn based on their positions in two time periods with the same number of years: 1965-81 and 1982-98. The strongest development towards majoritarian democracy took place in France, Australia and the Netherlands. The strongest development towards consensus democracy can be found in Spain, Austria and Italy. The least change with regard to consensus democracy between these two time periods are Norway, Germany, Portugal, New Zealand and Finland. This certainly does not mean that these countries have no institutional variation through time, as can be seen in Figure 2.3.

As reported in Table 2.8, factor analysis on the five indicators used for the construction of the new index of consensus democracy shows the existence of two underlying dimensions.¹¹ As expected, in accordance with the model described at the beginning of this section, the first factor relates to proportional representation (variables effective number of parties, reduction of proportionality and electoral

system) and the second factor to oversized coalitions (variables type of government and dominance of government over opposition). This factor analysis shows that two dimensions are indeed involved.

Table 2.8 Factor analysis on indicators of consensus democracy

	1	2
Effective number of parliamentary parties	-0.70	0.47
Reduction of proportionality	0.80	0.21
Electoral system	0.83	-0.16
Type of government	-0.30	0.74
Dominance government over opposition	0.16	0.82

* Factor analysis varimax extraction with Eigenvalues > 1.

2.6 Conclusions

This chapter discusses the consensus model of democracy. Consociational theory was developed as an amendment to the pluralist thesis that democratic stability was unlikely to occur in multi-party-systems and in plural societies. Several consociationalist theorists explained by means of case-studies of several Western European countries why stability did nevertheless occur in several small countries characterised by a segmented political culture. Consociational theory emphasises the role of the political elites to overarch the cleavages between the subgroups. Especially informal institutional arrangements between the elites have adjusted the working of the formal decision rules, which without these arrangements would have led to unstable outcomes or stalemates as predicted in pluralist theory. Lijphart generalised this consociational model of informal arrangements into the model of consensus democracy. This model describes the empirical features of mostly formal rules which altogether can be characterised as consensus democracy.

The main emphasis in the comparative study of the entire set of countries will be put upon formal institutions, which are measured over time, whereas in the case analysis more attention can be given to informal institutions.

The variables of Lijphart's model have been discussed in this chapter. Apart from some remarks about specific measurements, there are some substantial points to be made. First of all, Lijphart's operationalisation of consensus democracy does not allow for real dynamic measurement. The second problem is his use of two dimensions of consensus democracy. The federal-unitary dimension does not contribute to a better understanding of the working and effect of consensus democracy, because it measures something else, namely how the polity is organised, not how it works regarding problem-solving. Therefore, this dimension is excluded in this study.

Lane & Ersson (2000: Chapter 10) show that Lijphart's model of consensus democracy is more multi-dimensional than he thinks. The separate variables are too divergent to use in a single model. The logic of interdependent relations is weak or absent. The factor analyses in Table 2.4 and in Lane & Ersson (2000: Table 10.1, p. 222) show that Lijphart's model is less coherent than it seems.

Based on the discussion of Lijphart's model a new operationalisation of consensus democracy is suggested. This seems to be an adequate alternative. It enables analysis through time and it measures the specific features of consensus democracy more accurately. This model will be used for further quantitative empirical comparative analysis. However, additional improvements are needed. The model still emphasises on formal characteristics. Informal institutions, which are also crucial in understanding the working of decision-making, need attention too. This can be done by considering the existence and working of informal institutions in part III of this study where 4 cases will be examined.

In conclusion, the model of consensus democracy presented in this chapter can be used for further comparative analysis. It is parsimonious, internally valid and reliable. Another important asset is the fact that it is dynamic and therefore more sensitive to change. In short: the index of consensus democracy presented in this chapter is adequate to answer the research question of this study.

Notes

¹ The set of allocations that cannot be blocked by any coalition is called the core of the game (Dixit & Skeath 1999: 562).

² Threshold in Dutch parliamentary elections is equal to the share of votes required for one seat: $100/150 = 0.67$.

³ After a factor analysis Lijphart (1984) concluded that the indicator of direct democracy, measured by the number of referendums held, belonged to a third factor, which he found to be non-significant.

⁴ In Lijphart (1984) France is divided in two democratic regimes: the Fourth and the Fifth Republic.

⁵ For proportion of single party and minimal winning cabinets, cabinet durability and disproportionality the signs are reversed.

⁶ It can be argued that local government in Sweden is important in providing social welfare. The constitutional features of Sweden, however, are mainly centralised.

⁷ Just deleting these scores would lead to missing values.

⁸ This electoral rule is only used in Australia. The proportionality effect of the Alternative Vote is disputed (see Lijphart 1997; Farrell 2001: Chapter 3).

⁹ All scores are standardised for each year separately.

¹⁰ See Figure C.1 (Appendix C) for an explanation of a boxplot.

¹¹ Factor analysis in Table 2.8 is only used to demonstrate the link between the five indicators and two underlying dimensions.

3 CORPORATISM

3.1 Introduction

Corporatism concerns policy concertation among organised interests. By this we mean the system in which socio-economic actors (trade unions being representatives of workers and employers' organisations) shape socio-economic policy. Like in the system of political decision-making, the main interest in policy concertation among organised interests is the extent to which these institutional arrangements facilitate favourable outcomes in terms of macro-economic performance. Since the 1970s, a number of countries – in particular those with an open economy - have used corporatism as a national strategy to cope with an economic crisis of high unemployment rates and high inflation rates (Goldthorpe 1984; Katzenstein 1985; Woldendorp 1997). In the late 1980s and early 1990s, in an era of increasing international cooperation and interdependencies, the usefulness of national corporatist strategies became a topic of debate regarding its impact (Golden, Wallerstein & Lange 1999: 195-197). In the mid 1990s, however, social pacts were made in several European countries between socio-economic actors and governments while corporatist institutions seemed to be back on the agenda (ILO 1995; Molina & Rhodes 2002: 306; ETUI 1997; Grote & Schmitter 1999). Golden, Wallerstein & Lange (1999: 223) conclude that

‘industrial relations institutions and trade unions have by and large proved quite resilient in the face of considerable domestic and international economic pressures in the past decades’.

Given views like this it remains important to examine to what extent institutional arrangements like corporatism continue to play a role in socio-economic policy-making. It is seen as a parallel configuration to consensus democracy (Czada 1987; Keman & Pennings 1995).

This chapter discusses and conceptualises the role of corporatist institutions. First, the concept of corporatism is presented: what does it mean, how is it defined and how can it be measured properly in a comparative perspective? Second, recent contributions to the corporatism debate will be discussed. Third, like with consensus democracy in Chapter 2, an empirical model is developed to analyse the cross-national and cross-time developments of the role of corporatism.

3.2 The development of corporatist theory

Corporatism can be conceived in many ways. In this study it is depicted as a specific institutional model of decision-making on socio-economic policy issues between

organised interests, i.e. capital and labour. Since the 1970s it has received attention as a description of a system of interest intermediation which was developed as an alternative to pluralist modes of interest representation (Schmitter & Lehmbruch 1979). Later, a different approach paid attention to government's strategy to create an institutional context to influence macro-economic developments (Lehmbruch & Schmitter 1982). When related to this type of analysis the term neo-corporatism is used to distinguish it from the authoritarian form of corporatism, which for instance can be found in Latin-American countries (Keman, Paloheimo and Whiteley 1987)¹.

The traditions of corporatism² date from the nineteenth century when Catholic ideologists looked for a new system of industrial relations as a reaction to individualistic, egoistic capitalism and state-oriented, anti-religious socialism. Conflict between social partners in Catholic corporatism is deemed counterproductive. Therefore, trade unions and employers' organisations had to cooperate to prevent the rise of a dominant state. This alternative to the capitalist system of market production and private ownership found some application in several non-democratic regimes in Latin America and Southern Europe. The fascist variant of corporatism, however, is state-enforced cooperation between employers and state-monitored unions. To this day, this link with authoritarian regimes has led to considerable scepticism about corporatism.

Corporatist patterns of interest intermediation have received attention in Western Europe since the 1970s. Lehmbruch (1977) introduced the term 'neo-corporatism'. Neo-corporatist types of industrial relations were developed in some Scandinavian and continental European countries to fight an economic crisis that caused high inflation and unemployment rates. Particularly social democratic governments used a neo-corporatist strategy to create an institutional environment that facilitated voluntary cooperation between trade unions and employers' organisations.

The basic idea behind corporatism is the presence of shared interests expressed in cooperative relations between social partners and government on socio-economic issues. Many corporatist scholars argue that consensual industrial relations have a positive impact on the effectiveness of the socio-economic policy-making process (Schmidt 1982; Crepaz 1992). As a consequence, this should lead to better policy outcomes and performance. Nowadays, this is disputed. These studies, using different conceptualisations and operationalisations of both corporatism as the independent variable and a variety of socio-economic indicators as the dependent variable, lead to divergent conclusions about the effect of corporatism on socio-economic performance (cf. Schmidt 1982; Therborn 1987; Crepaz 1992; Keman 1993; Woldendorp 1997; Flanagan 1999).

In the literature two dimensions of corporatism are distinguished: the existence of an interest groups system and policy concertation by socio-economic interest groups. The first dimension sees corporatism as an interest groups system. Cooperation between trade unions and employers' organisations in corporatist industrial relations is seen as to be considerable. Government does not try to intervene directly by imposing decisions on social partners but facilitates negotiation between these groups, thereby enabling them to reach agreements independently without central government having to intervene directly (Woldendorp 1995; 1997).

Lehmbruch elaborated the idea of policy concertation. This second dimension - also known as corporatism 2 - concerns the incorporation of interest groups in the process of policy formation and implementation. Corporatist theory states that socio-economic policy formation by the government is not necessarily a process to which everyone has equal access, as pluralist theory asserted. Certain interest groups have a stronger involvement in this process than others. This results in a system of cooperation between government and social partners.

There is a difference between these two dimensions of corporatism and consensus democracy. First, the scope of the interest groups system is restricted to socio-economic issues. Second, concertation emerges outside of the parliamentary arena. In this view, corporatism is defined as a system in which both political decision-making by the government and free competition between voters and political parties are adjusted or restricted by allowing certain socio-economic actors (e.g. trade unions and employers' organisations) special privileges and access to the policy arena. The underlying ideology is that direct involvement of the most important actors leads to a more efficient system of decision-making which will have a stronger legitimacy and where the role of the state regarding macro-economic policy is based on power-sharing. Critics of corporatism fear an alternative (if not competitive) system of decision-making that is not regulated by means of basic laws (constitution) and which is - as a result - less democratic.

Only peak organisations have access to a government. In pluralism, groups and organisations compete for access to the political decision-making arena, in contrast to the monopoly of representation in corporatism of selected socio-economic actors. Government and parliament remain to be the principle decision-makers and responsible to parliamentary control. In corporatist institutional relations, employers' organisations and trade unions can reach agreements. However, the possibility of such arrangements occurring depends on the type of corporatism. In societal corporatism there is room for actors to develop their own institutional patterns, whereas in state corporatism a top down approach must secure the fulfilment of social order as favoured by the authorities (Schmitter 1979).

Schmitter (1979) developed an alternative model to pluralism, which was the dominant model of interest representation in political science at the time. Schmitter (1979: 8-9) considers corporatism to be a system of interest representation that has particular institutional features linking the organised interests of civil society to the decisional structures of the state. Whether or not corporatism is really that distinctive from pluralism (Williamson 1989: 49) can be disputed. Both models share a number of basic assumptions, such as the growing importance of formal associational units of representation and the persistence and expansion of functionally differentiated and potentially conflicting interests, but they offer conflicting views on the institutional form that a modern system of interest representation will take. Corporatism advocates – according to Schmitter - ‘controlled emergence, quantitative limitation, vertical stratification and complementary interdependence’ whereas pluralism suggests ‘spontaneous formation, numerical proliferation, horizontal extension and competitive interaction’, (Schmitter 1979: 15-16). Pluralism allows equal access and equal opportunities to everyone, while corporatism is a ‘closed shop’ where important societal interests have access.

According to Schmitter corporatism is not either absent or present, but corporatist patterns vary in their extent as an institutional arrangement. Schmitter and other authors developed scales to measure the degree to which institutional arrangements that can be characterised somewhere between corporatism and pluralism exist within a country. These and other measures of corporatism are discussed in Section 3.3.

Occurrence of corporatist patterns of interest mediation can be linked to other institutions. First, in some countries characterised by a corporatist style of interest representation, consociational devices play a role in the overarching of the cleavages between different subgroups. Chapter 4 explains the connection between consensus democracy and corporatism. Austria and Belgium are examples of countries in which both institutions play a role. Second, according to many observers corporatism appears to be connected to social democratic governments (Schmidt 1982; Keman 1993). This seems particularly the case in the Scandinavian countries. In order to secure social peace, social democratic governments are more willing to involve social partners in the policy-making process by means of providing welfare, whereas bourgeois governments have a stronger tendency to reduce the size of its government at the cost of the welfare state. These different styles of policy-making have an important impact on the type of public policy of the government, on the levels of public expenditures and on government size. Third, Katzenstein (1985) argues that corporatist institutions play an important role in small countries characterised by a large share of external trade in the GDP

and a high degree of dependency on world market developments. Fourth, there is concurrence between corporatism and organisational structure, such as a high union density and employers' organisation rate, closed shops, centralisation and coordination of collective bargaining, a more detached role of the government, and the existence of networks of political elites (see Czada 1987, Armingeon 1994). Hence, corporatism might very well be an important feature if not explanation of policy-making. Therefore proper conceptualisation and measurement is crucial, both cross-nationally and cross-time.

3.3 Concepts and scales of corporatism

The 'Does corporatism matter?' debate is characterised by wide disagreement between the authors on how corporatism should be measured and thus how countries are to be placed on a scale of corporatism. Almost every author who has written on this topic developed his own measurement and applied it to a group of OECD-countries. The early indicators of corporatism were static and measured the role of corporatism at one time point or time period. In the 1990s several dynamic scales were developed. These static measurements are presented before the more recent dynamic scales are discussed.

Lehner (1987: 57) empirically tested the hypothesis that

'management of distributive conflict and economic performance in advanced democracies is better if their institutional structure can integrate interest intermediation'.

His scale of different modes of interest intermediation is based on *Lehmbruch* and *Czada's* typologies. The ordinal scale distinguishes five categories (*Lehner* 1987: 58, Figure 1):

- 1 Pluralism: fragmented and segmented interest intermediation;
- 2 Weak corporatism: institutionalised participation of organised labour in certain areas and a narrow scope of collective bargaining;
- 3 Medium corporatism: sectoral participation, but a broad scope of collective bargaining;
- 4 Strong corporatism: tripartite concertation with a broad scope, encompassing coordination of incomes policies;
- 5 Concordance: encompassing co-ordination of the interaction between the private and the public sector.

Schmidt (1982: 244; 257, footnote 8) defines corporatism as a specific mode of regulating class conflict. Strong corporatist countries are characterised by:

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- leaders of the trade unions and employers' associations who are committed to a social partnership ideology;
- state, trade unions and employers' associations are cooperating in some economic policy areas;
- a low strike volume between 1974 and 1978;
- state enacted absence of authoritarian incomes policy.

A low strike volume indicates that there is a high degree of cooperation between trade unions and employers' organisations, because a lack of conflict averts strikes. If social partners can voluntarily agree on a moderation-policy of the wages, there is no need for government intervention like an authoritarian incomes policy.

Lehmbruch (1984: 61-62; 65) labels three developments as corporatism:

- 1 centralised interest organisations;
- 2 access to government and institutionalised linkage between public administration and interest organisations;
- 3 regulating conflict between social partners and government, tripartism.

Lehmbruch (1984: 62) distinguishes sectoral corporatism and corporatist concertation. By the former he means corporatist representation of interests that is limited to specific sectors of the economy. The latter is different, because it does not just involve a single organised interest but rather a plurality of organisations. These organisations manage their conflict and coordinate their action with the government.

Lehmbruch (1984: 65-66) develops a descriptive scale, which represents the degree of corporatism for several OECD-countries.

- pluralism is characterised by pressure-group politics and lobbying by fragmented and competing interest groups: US, Canada, Australia, New Zealand;
- weak corporatism is distinguished by institutionalised participation of organised labour: UK, Italy;
- medium corporatism has a broader scope of collective bargaining and concerted incomes policies: Ireland, Belgium, West Germany, Denmark, Finland;
- strong corporatism is characterised by effective participation of labour unions and concertation of major economic interests: Austria, Sweden, Norway, the Netherlands;
- concertation without labour: Japan and France are not covered by this classification, but these countries have concertation without involvement of labour organisations.

Cameron (1984: 164-166) measures the following characteristics of the organisation of the labour movement between 1965 and 1982:

- 1 the extent of union membership in relation to total labour force size;
- 2 organisational unity of labour;
- 3 confederation power in collective bargaining;
- 4 scope of collective bargaining;
- 5 the existence of schemes for worker participation in decision-making of companies.

The organisational power of labour is calculated by adding the organisational unity of labour to the collective bargaining power of the labour confederation. This must be multiplied by the percentage of the labour force that is unionised.

Schmitter (1981: 294) uses the concept of 'societal corporatism'. This societal corporatism is located in the realm of institutional behaviour, not that of individual values or collective aspirations. It refers to a mode of arranging the political process. Societal corporatism refers to a special pattern of interest intermediation within a capitalist economic system. Schmitter uses two structural characteristics of trade union movement as indicators of societal corporatism:

- 1 the degree of organisational centralisation;
- 2 the extent to which a single national central union benefits from a representational monopoly.

The main dimension of *Keman's* neo-corporatism scale (1988) is the degree of cooperativeness in implementing macroeconomic policy. Indicators are social partnership and level of state intervention in industrial relations:

- 1 not neo-corporatist (conflict regulation by authoritarian policy);
- 2 not neo-corporatist (some conflict regulation through cooperation and negotiation);
- 3 either a high level of government intervention or a high level of social partnership;
- 4 neo-corporatist (not always effective or operative);
- 5 strongly neo-corporatist conflict-regulation.

Lijphart & Crepaz (1991: 238-240) do not construct a scale themselves. Their indicator is based on the measurements of twelve neo-corporatist analysts. They use the mean of these values for each country. Although these generated values look very precisely determined, they are in fact based on mostly ordinal scales with a considerable variation. *Lijphart & Crepaz* (1991: 240, Figure 1) compared

the degree of expert agreement on countries. At the extremes (strong corporatist and strong pluralist countries) there is some degree of agreement, but in between there is considerable disagreement. Especially the rankings of Japan, Switzerland, France and Italy diverge extremely. Despite Lijphart & Crepaz's confidence in their own composed indicator, the measurements on which their index has been based diverge too much to speak of one coherent indicator, because the underlying concepts of the authors are too different.

Table 3.1 contains the rankings of 18 OECD-country according to several authors. Countries are ranked on a scale from strong to weak corporatism. Lijphart & Crepaz' scales as well as Cameron's scales are continuous variables. The other ones are ordinal scales. Countries with same rankings are placed in the same category. For example in Lehner's measurement Switzerland and Japan show the highest degree of corporatism, therefore no difference is made between both countries.

Table 3.1 Ranking of 18 OECD-countries according to different corporatism-scales

Lijphart & Crepaz (1991)		Lehner (1987)	Schmidt (1982)	Lehmbruch (1984)
1	Austria	1 Switzerland	1 Austria	1 Austria
2	Norway	Japan	Norway	Norway
3	Sweden	2 Austria	Sweden	Sweden
4	Netherlands	Norway	Switzerland	Netherlands
5	Denmark	Sweden	Japan	2
6	Switzerland	Netherlands	2	Switzerland
7	Germany*	3 Denmark	Netherlands	Denmark
8	Finland	Germany	Denmark	Germany
9	Belgium	Finland	Germany	Finland
10	Japan	Belgium	Finland	Belgium
11	Ireland	Ireland	Belgium	Ireland
12	France	Australia	Australia	3 Italy
13	Italy	4 Italy	New Zealand	UK
14	UK	UK	3 Ireland	4 Australia
15	Australia	5 France	France	New Zealand
16	New Zealand	US	Italy	US
17	US	Canada	UK	Canada
18	Canada		US	5 Japan
			Canada	France

Table 3.1 continued

Cameron (1984)		Schmitter (1981)	Crouch (1985)	Keman (1988)
1	Sweden	1 Austria	1 Austria	1 Austria
2	Norway	2 Norway	Sweden	Norway
3	Austria	3 Sweden	Netherlands	Sweden
4	Belgium	Denmark	2 Norway	2 Switzerland
5	Finland	Finland	Denmark	Netherlands
6	Denmark	4 Netherlands	Switzerland	3 Denmark
7	Netherlands	5 Belgium	Germany	Finland
8	Germany	6 Germany	Finland	Germany
9	UK	7 Switzerland	Belgium	Japan
10	Australia	8 Ireland	3 Japan	New Zealand
11	Ireland	US	Ireland	4 Belgium
12	Switzerland	Canada	France	Italy
13	Italy	9 France	Italy	France
14	Canada	10 UK	UK	Australia
15	US	11 Italy	Australia	5 Ireland
16	Japan		New Zealand	UK
17	France		US	US
			Canada	Canada

Notes

- countries are ranked from most corporatist (1) to least corporatist (18);
- for the measurement of Germany only Federal Republic of Germany is considered.

From Table 3.1, the conclusion can be drawn that there are many diverging rankings. Most of these scales emphasise different elements (see also Keman & Pennings 1995). There is, however, also some agreement. Austria is, for example, almost always in top spot. There is also considerable agreement about the high rankings of Norway, Sweden and the Netherlands. At the bottom of the rankings we find more often than not the UK, Australia, New Zealand, the US and Canada. There is no consensus about the rankings of several countries such as Switzerland and Japan, which are found at almost every possible position and show highest variation.

The scales in Table 3.1 and Figure 3.1 are highly correlated, as reported in Table 3.2. The rankings of these countries³ by the eight corporatism scales are translated in scores from 1 (pluralism) to 5 (corporatism). The scores on this 5-point scale are visualised in Figure 3.1.

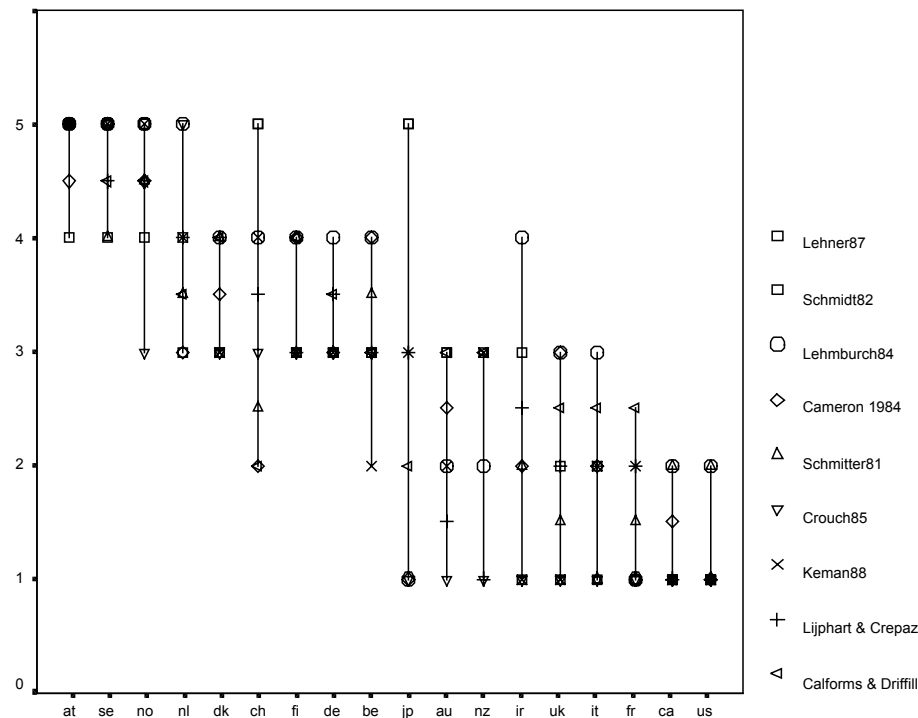


Figure 3.1 Eight static corporatism scales of eighteen countries

Based on Table 3.1

Labels: at = Austria, se = Sweden, no = Norway, nl = the Netherlands, dk = Denmark, fi = Finland, ch = Switzerland, de = Germany, be = Belgium, jp = Japan, au = Australia, nz = New Zealand, ir = Ireland, uk = United Kingdom, it = Italy, fr = France, ca = Canada and us = United States.

Figure 3.1 shows that the variation of the scales is highest for Japan (between 1 and 5) and Switzerland and Ireland. Austria, Sweden, US and Canada show the smallest variation. The different corporatism measures are based on different underlying meanings and operationalisations. This partly explains the divergence of the scores as expressed in Table 3.2, which contains correlation coefficients between nine static corporatism scales. The lowest coefficient is 0.39 (between Cameron and Lehner), while the correlation between Schmidt and Lehner, 0.89, is the highest of all. In order to illustrate how different (and hence incomparable) these

scales are, a short characterisation of the focus of these scales is given. Lehner (1987) focuses on coordination by social partners and the scope of collective bargaining without government. Lehmbruch (1984) incorporates three aspects: centralised interest organisations, access to government and regulating conflict. Schmidt (1982) defines corporatism as a specific mode of regulating class conflict. Cameron (1984) emphasises the organisation of the labour movement. Schmitter (1981) looks at the centralisation of the trade union movement. Keman (1988) considers corporatism as a cooperative strategy between social partners in relation to government. Lijphart & Crepaz (1991) use a composite index of twelve scales as their measurement of corporatism. Calmfors & Driffill's index (1988) measures the scope and the centralisation of collective wage bargaining.

This overview leads to the conclusion that these authors basically measure two aspects, namely:

- the structure or context relating the socio-economic actors to the government;
- the room to manoeuvre for these actors as well as the use they make of it.

This distinction is important since structural features may facilitate cooperative behaviour, but this behaviour is not a direct reflection of these features. Consequently, the main underlying concepts of these scales can roughly be divided in two groups. The first group of scales measures mainly the organisational strength of the actors involved, mostly trade union strength. Lehmbruch's, Cameron's and Schmitter's scales fit into this group. The second group deals with the relation between social partners and government. Lehner, Schmidt and Keman belong to this second group. The conceptual differences between these groups is essential for the study of corporatism. The first group deals mainly with societal corporatism and the second group focuses mainly on the role of the state in corporatist relations. In Table 3.2, the coefficients between the scales within both groups are in bold print.

Table 3.2 Correlation coefficients between eight static corporatism scales

Lehmbruch	(1)							
Cameron	0.80	(2)						
Schmitter	0.77	0.86	(3)					
Lehner	0.50	0.39	0.70	(4)				
Schmidt	0.45	0.54	0.84	0.89	(5)			
Keman	0.62	0.65	0.81	0.75	0.88	(6)		
Crouch	0.71	0.51	0.61	0.64	0.58	0.63	(7)	
Lijphart & Crepaz	0.78	0.58	0.61	0.77	0.64	0.66	0.84	(8)
Calmfors & Driffill	0.74	0.88	0.81	0.48	0.58	0.77	0.48	0.61

Source: own calculations based on Table 3.1.

The correlations within both groups are indeed higher than the other correlations, confirming our finding that they have a similar conceptual understanding of corporatism. The indexes of Cameron, Lehmbruch and Schmitter measure coordination and centralisation of interest groups as bipartite relations. Lehner, Schmidt and Keman stress the extent to which government facilitates consensus and cooperation with and among interest groups.

Overall, we can conclude that the static scales are diverse. They reflect a fundamental schism in corporatism literature between those that emphasise group characteristics versus those that emphasise the structural aspects of corporatist institutions.

During the 1990s a new group of dynamic scales was developed. Table 3.3 shows that these scales suffer from the same deficiencies as noted before: they are often too narrowly focused on one or two aspects. The basic statistics (mean and standard deviation) of these scales are given in Table 3.3 and the ranking of twelve to fifteen countries according to these scales.

Table 3.3 Dynamic corporatism scales

Country	Compston			Siaroff			Iversen		
	Mean	Standard Deviation	Ranking*	Mean	Standard Deviation	Ranking*	Mean	Standard Deviation	Ranking*
Australia				2.87	0.42	11	0.48	0.12	3
Austria	9.74	0.45	1	4.63	0.00	2	0.44	0.00	5
Belgium	5.30	1.15	9	3.91	0.24	9	0.32	0.11	9
Canada				1.70	0.09	16	0.07	0.00	15
Denmark	6.74	2.40	6	4.18	0.24	5	0.47	0.14	4
Finland	7.09	1.08	4	4.17	0.33	6	0.42	0.09	6
France	3.08	1.82	12	2.05	0.19	13	0.12	0.04	14
Germany	4.42	1.06	10	4.13	0.00	7	0.33	0.03	8
Italy	6.71	1.49	7	2.42	0.38	12	0.16	0.05	13
Japan				3.49	0.13	10	0.25	0.04	10
Netherlands	5.91	1.16	8	4.00	0.13	8	0.37	0.07	7
Norway	6.87	1.66	5	4.63	0.00	2	0.53	0.13	1
Sweden	8.09	2.21	2	4.69	0.06	1	0.50	0.11	2
Switzerland	8.00	0.00	3	4.38	0.00	4	0.25	0.00	10
UK	3.25	2.89	11	1.96	0.16	14	0.17	0.10	12
US				1.92	0.19	15	0.07	0.00	15

* rankings based on mean scores; sources: Compston (1994; 1995a; 1995b); Siaroff (1999); Iversen (1999: 56; 83-86)

Siaroff (1999) developed an alternative index of corporatism: integration of the economy. This index, labelled as interest group system, is used by Lijphart (1999) as one of the indicators of consensus democracy (see Chapter 2). Integration of the economy is defined as 'a long-term cooperative pattern of shared economic management involving the social partners' (Siaroff 1999: 189). This index is measured by eight variables divided in three categories. Indicators of social partnership are strike volume, nature and goals of trade unions and legal and state support for unions and union power. Coordination of industry-level is measured by the nature of the economic ties of companies and the extent of co-determination in the workplace. Overall national policy-making patterns are operationalised by the nature of national wage setting, extent of exchange in industrial relations and the nature of public-private interaction. The advantage of Siaroff's index is that it seems encompassing, but this measurement is also crude and variation through time is limited.

Another new measurement is Iversen's centralisation index (1999). This index focuses on two essential elements: the level of bargaining and the degree of enforceability⁴. As a centralisation index, this measure is quite accurate. However, for a corporatism measure, it is too narrowly focused on the centralisation of wage bargaining. Kenworthy (2001: 72) argues that Iversen's measure 'does not take into account the share of the workforce covered by wage bargaining at each level'. Iversen's index does not follow from an encompassing definition of corporatism.

Compston (1994; 1995a; 1995b) developed an index of union participation in economic policy-making. According to Compston (1994: 124) union participation means

'discussions at national level (...) between government and trade union officials about the formation of government policies relating to employment, prices, growth and trade'.

Scores are given on a ten-point scale for thirteen countries. Compston's measure of union participation cannot be used for our purposes because it is confined to union participation only. Therefore it is remotely related to the much more encompassing concept of corporatism.

Traxler, Blaschke & Kittel (2001) developed a measure of centralisation of wage bargaining based on behaviour. Kenworthy (2001: 74) finds that the weakness of this measure is its heavy reliance on subjective judgement rather than on objective measurement. Kenworthy (2001) operationalised an index of coordination, but he states

'that this variable is not a *measure* of wage coordination per se' but 'a *hypothesis* or *prediction* about the degree of coordination that is likely to be generated'. [original italics] Kenworthy (2001: 79)

Another reason why Kenworthy's index can not be used is that it lacks data for five of the twenty countries analysed in this study⁵.

International comparisons between the degree of corporatism have the advantage that they can be used to systematically analyse national conditions which facilitate the existence of macro-corporatist arrangements and to compare performance associated with corporatism at national level (Williamson 1989: 150). Special attention is given to the construction and the results of these different corporatism scales. Different measurements of corporatism can lead to divergent conclusions about the effects of the degree of corporatism.

Several critical remarks can be made with respect to empirical studies on the relation between corporatism and socio-economic policy-making. First of all, a clear conceptualisation of corporatism is often lacking. As shown before, many different operationalisations have been used to compare the degree in which corporatism is a strong element within a polity. As most operationalisations emphasise different features, for example the scope and the level of collective bargaining, the degree of cooperation between trade unions and employers' organisations measured by the number of strikes, the level of union membership and the degree to which an authoritarian incomes policy is absent. Because of the divergence of the operationalisations a comparison of the empirical relations with decision-making and macro-economic performance is difficult. Second, most scales are static. In measurements based on expert judgements, an estimate for a longer period, in most cases several decades, was made. These judgements resulted in crude scores on a limited ordinal scale, not having more than 3 to 5 intervals. If more sophisticated indicators are used, the resulting score is based on an average of these indicators. Of course, it is reasonable to assume that such institutional arrangements will not change overnight. However, the disadvantage is that this kind of measurements cannot be used to measure developments through time. Therefore they can only be used for a cross-national comparison of institutional contexts. They do not reveal historical developments and related institutional change. This reinforces the idea that corporatism should be measured by means of two dimensions and over time, namely centralisation and coordination.

3.4 Definition and measurement of corporatism

For a clear operationalisation of corporatism it is necessary to take a definition as a point of departure. Of course this definition has to be consistent with the conceptual framework of Chapter 1 and the definition of consensus democracy of Chapter 2. The most essential part of corporatism can be captured as follows.

Definition: Corporatism is an institutional arrangement facilitating socio-economic policy concertation among organised interests not represented in the political arena and in which the actors – i.e. trade unions and employers' organisations – agree upon socio-economic issues in a decision-making style which is based on cooperation and finding consensus in order to avoid conflict.

This definition has to be interpreted in the context of socio-economic problem-solving in capitalist democracies. First of all, it applies solely to democratically governed countries. Institutional arrangements are not imposed by an authoritarian regime, but the result of voluntary cooperation between the actors involved. Secondly, both formal and informal institutions are important in this definition. Formal institutions are decision rules that can be enforced independently for every actor. Informal institutions are practices that exist to regulate the behaviour of all actors involved and which can work within the formal rules resulting in the desired outcome. These informal institutions can be seen as an institutional equilibrium which could not have existed if only the formal rules were in use.

How can the criticism and the analytical view of corporatism developed so far be translated into operational terms for comparative research? The level of collective bargaining and the organisation of interest groups are important structural features of corporatism. Centralised and coordinated wage bargaining indicate the existence of an institutional structure in which socio-economic actors participate. The organisation of interest groups expresses the extent to which these interest groups are encompassing. Olson (1982) argued that small interest groups have a tendency to rent-seeking, i.e. purporting their own short term interest at the expense of the general public. The interests of large encompassing groups coincide largely with the public interest. This is a crucial difference between corporatism and pluralism. In contrast to corporatism, pluralism means that small interest groups are mainly focused on their own interest and are unwilling to cooperate with other groups. This undermines the public interest. Corporatist institutions allows for cooperation and consensus by means of centralisation and coordination of interest group behaviour.

The role of the government is explicitly not taken in this index of corporatism. The focus here is on the relation between social actors, i.e. trade unions and employers' organisations. More often than not government is the connection between political decision-making and policy concertation between organised interests. From our argument (see Chapter 1) we feel that conceptually it is necessary to separate empirically the role of 'politics' from the process of bargaining between capital and labour. Therefore the definitions and measurements of consensus democracy and corporatism should avoid an overlap. Yet, in the case analysis in Chapters 7 to 10 the focus will be on the relation between government and interest groups as actors within their institutional configuration and thus the role of the government in socio-economic policy-making will be assessed.

The level and scope of collective bargaining can be measured by centralisation and coordination of wage bargaining. The organisation of interest groups as peak organisations can be measured by trade union density and the coverage rate of collective bargaining. No complete data are available for all countries and for each year between 1965 and 1998. To solve this, scores are measured for four periods: 1965-74, 1975-84, 1985-92 and 1993-98 (hence it is semi-dynamic). Sources can be found at the bottom of Table 3.4. Sometimes several sources are used to minimise missing scores. Scores for all periods can be found in Table C.4 (Appendix C) and the mean scores for the period 1965-98 can be found in Table 3.4.

Table 3.4 Index of corporatism (mean scores 1965-98)

Country	Centralisation	Coordination	Union density	Coverage rate	Corporatism
Australia	2.00	1.75	41.4	84.0	0.14
Austria	2.44	3.00	51.5	98.0	1.36
Belgium	2.31	2.25	51.2	90.0	0.64
Canada	1.13	1.00	35.1	37.0	-1.81
Denmark	2.19	2.50	72.7	69.0	0.74
Finland	2.25	2.19	72.1	95.0	1.01
France	1.75	1.69	13.8	89.3	-0.59
Germany	2.13	3.00	34.0	91.0	0.65
Greece	2.00	2.00	30.3	90.0	0.06
Ireland	3.00	1.75	51.0	50.0	0.37
Italy	1.81	1.63	41.1	83.8	-0.22
Netherlands	2.00	2.25	30.7	76.0	-0.08
New Zealand	1.63	1.25	41.0	58.0	-0.68
Norway	2.25	2.63	55.9	74.8	0.63
Portugal	2.00	1.92	38.0	73.3	-0.04
Spain	2.08	2.00	14.9	76.7	-0.37
Sweden	2.56	2.44	81.9	86.8	1.39
Switzerland	2.13	2.44	28.8	52.3	-0.32
UK	1.69	1.19	40.8	58.5	-0.75
US	1.13	1.00	20.0	22.0	-2.24
Mean	2.02	1.99	42.3	72.8	

Sources: Centralisation (3 = centralised, 2 = intermediate, 1 = decentralised): OECD (1997); Calmfors & Driffill (1988); IPD (1996); Coordination (3 = coordinated, 2 = intermediate, 1 = un-coordinated): OECD Employment Outlook, (1991: 97-134; 1994: 167-191; 1997: 71); Calmfors & Driffill (1988); IPD (1996); Union density (percentage of labour force member of trade union): Ebbinghaus & Visser (2000); Coverage rate (percentage of labour force covered by collective agreement): OECD (1997); Golden, Wallerstein & Lange (1998); Traxler, Blaschke & Kittel (2001). Corporatism index: standardised scores of the sum of centralisation, coordination, union density and coverage rate.

Centralisation measures the level of wage bargaining (national or central, intermediate or sectoral, and decentralised or firm-level) and 'coordination refers to the extent to which the different levels are integrated' (OECD 1994: 171). Coordination measures union and employer coordination (OECD 1997: 70). Centralisation of wage bargaining focuses on the level, whereas coordination focuses on the degree of consensus between the collective bargaining partners. Centralisation measures the vertical cooperation between actors and coordination measures the horizontal coordination between actors.

Trade union density and coverage rate of collective bargaining are indicators of the strength of the trade unions. Not only union membership is taken into account, but the coverage rate of wage bargaining as well. Coverage rate measures the level of union involvement in collective bargaining. Golden, Wallerstein & Lange (1999:

202) argue that 'union coverage is a more accurate measure of the extent to which unions affect wage levels in the economy than is the rate of union membership'. Unfortunately, no similar data for employers' organisations are available. Otherwise the organisation rate of employers would have been included as well. Nevertheless, the nature of collective bargaining can be measured by these two indicators. For almost every country the coverage rate is at least as high as the trade union density.

The index of corporatism is measured as the sum of centralisation of wage bargaining, coordination of wage bargaining, union density and collective coverage rate⁶. Figure 3.2 shows the ranking of the countries by the mean scores of the index of corporatism.

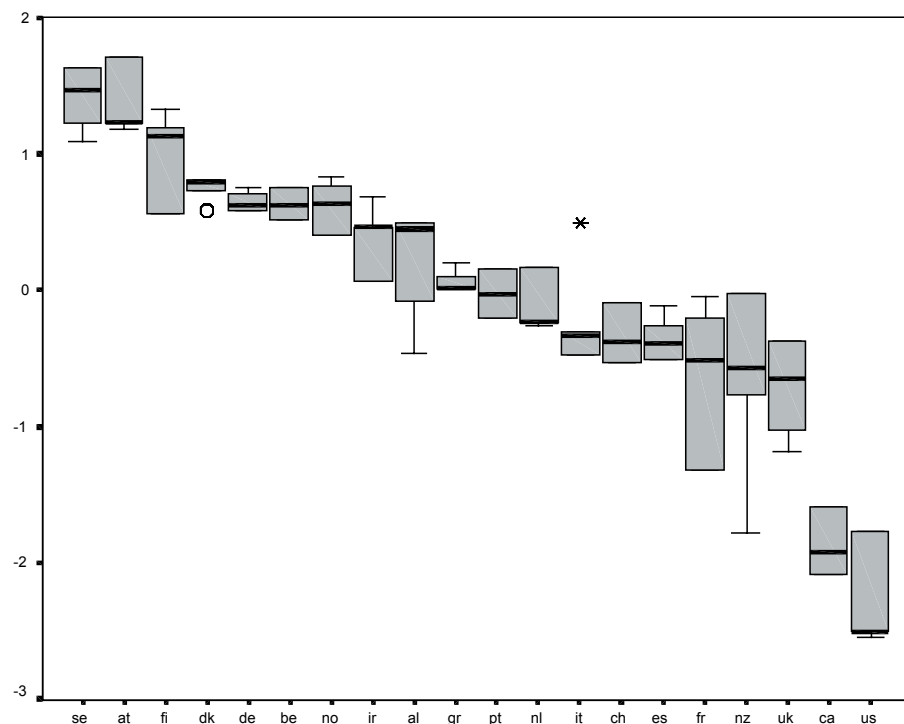


Figure 3.2 Boxplots of scores of the index of corporatism (1965-98)

Source: Table 3.4; For explanation of a boxplot see Appendix C, Figure C1, page 235.
Country labels: at = Austria, au = Australia, be = Belgium, ca = Canada, ch = Switzerland, de = Germany, dk = Denmark, es = Spain, fi = Finland, fr = France, gr = Greece, ir = Ireland, it = Italy, nl = the Netherlands, no = Norway, nz = New Zealand, pt = Portugal, se = Sweden, uk = United Kingdom and us = United States.

Finland, Austria and Sweden have the highest scores on corporatism. Canada and the US score lowest on this corporatism index. The four countries that are analysed in Chapters 7 to 10 are dispersed over this corporatist versus pluralist scale. Sweden scores highest on corporatism, while New Zealand is among the least corporatist countries. Portugal and the Netherlands are located near the centre of this scale.

The placement of some of the set of twenty countries deviates from rankings by some other authors. Switzerland and the Netherlands particularly score lower on this index of corporatism than in some other studies (see Figure 3.1). The main reason for these lower scores is that this corporatism index measures bipartite industrial relations rather than tripartite constellations. The role of the government was not incorporated in this index. This new index also measures the extent to which trade unions are encompassing. Another important element of this new index is that it does not explicitly measure the interaction with the government. In this study a clear distinction is made between political decision-making to which the concept of consensus democracy is applied and policy concertation among organised interests. The role of the government is examined in the context of consensus democracy. Adding the government to the measurement of corporatism would lead to confusion between both concepts.

Table C.4 (Appendix C) contains the mean scores for all four periods and the standard deviations of all countries. Table C.4 shows the variation over time within the cases. Germany, Belgium and Greece score highest on stability whereas New Zealand and France score highest on variation.

The effect of corporatism cannot be analysed without taking the working of parliamentary democracy into account. So, another improvement made in this study is that the linkages between corporatism and consensus democracy are analysed. Both can be seen as institutional arrangements characterised by consensual behaviour (Keman & Pennings 1995). The linkages between these concepts will be further elaborated in Chapter 4.

3.5 Conclusions

In this chapter the focus was on policy concertation among organised interests. Corporatism can be considered a special institutional arrangement regarding socio-economic policy-making between employers' organisations and trade unions. In contrast to pluralism, interest groups have special access to the process of policy-formation and implementation. Corporatist institutions are characterised by cooperation and consensus rather than by conflict. The central hypothesis that will be in Chapter 5 tested is that corporatism has a positive impact on socio-economic performance. Many studies already tried to answer this question before. However,

there is large disagreement about the way to measure the degree of corporatism and consequently these studies did not lead to a unanimous conclusion. In this study the degree of corporatism is measured in a semi-dynamic way. The role of the government is not part of the corporatism measure used in this study. This allows for examination of the relation between corporatism and consensus democracy. This is the purpose of the next chapter.

Notes

¹ In this study the term corporatism will be used as the equivalent of neo-corporatism, since the scope of analysis is limited to Western democracies at the end of the twentieth century.

² For the historical roots of corporatism see Winkler (1976); Wiarda (1997: Chapter 2) and Williamson (1989).

³ These corporatism scales give no scores for Spain, Portugal and Greece.

⁴ The index of centralisation (C) is sum of the weights accorded of each bargaining level j (w_j) and the shares of workers covered by union i at level j (p_{ij}) using the formula:

$C = \sum w_j p_{ij}^2$ (Iversen 1999).

⁵ Kenworthy (2001) gives no data for Greece, Ireland, New Zealand, Portugal and Spain.

⁶ Standardised scores are used.

4 LINKAGES BETWEEN CONSENSUS DEMOCRACY AND CORPORATISM

4.1 Introduction

Consensus democracy and corporatism, the independent variables in this study, are extensively discussed in Chapters 2 and 3. Operationalisations of both consensus democracy and corporatism, are presented that are both more dynamic and more valid than other existing measurements. This chapter examines the linkages between the institutions of consensus democracy and corporatism. Do these variables have a lot in common or do they have to be considered as something different? In our view, consensus democracy and corporatism are institutional arrangements that have different underlying concepts and meanings. Both arrangements have in common that they adjust the working of formal rules and that they were originally formulated as alternatives to dominant conceptual models, respectively majoritarian democracy and pluralism. Consociational democracy proved that political stability is possible in a heterogeneous society. Corporatism was developed to understand how interest groups cooperate in formulating socio-economic policy in Western political economies.

Both institutional arrangements are considered to be conducive to cooperation and consensus. Majoritarian systems of decision-making and policy-making concentrate power in the hands of a majority. Consensual and corporatist institutional arrangements enlarge the possibilities for minorities to influence political decision-making and policy-making process. In other words, more actors have access to the input side of decision-making. This chapter analyses the similarities and differences of these institutional arrangements. Several contextual variables are investigated as well as the way they may affect consensus democracy and corporatism; it is necessary to see how the conceptual ideas and related operationalisation of this study stand up to reality.

The main conclusion of this chapter is that consensus democracy and corporatism share the same underlying mechanism of enlarging input access to minority groups. And the presence of institutional characteristics of these arrangements can coincide in several countries. Nevertheless, we contend that consensus democracy and corporatism are different types of institutional arrangements, with different actors operating in different decision-making arenas and thus – so it is expected – will differ in terms of impact on performance.

4.2 Conceptual model

Figure 1.2 in Chapter 1 shows the conceptual model of the relationship between actors, institutional arrangements and policy and performance. Figure 4.1 elaborates on this model. The main relations between consensus democracy and corporatism are outlined in the conceptual model below.

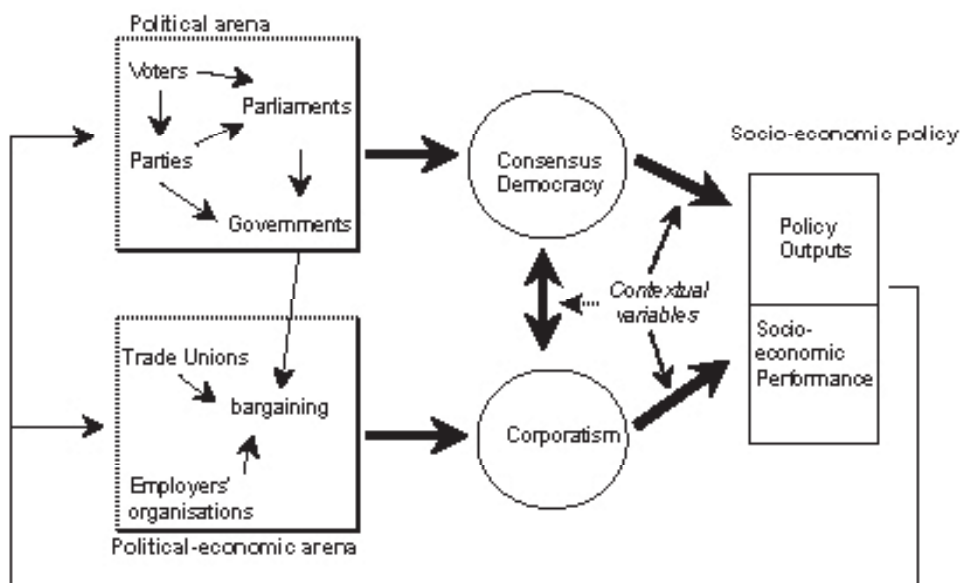


Figure 4.1 Model of political decision-making and policy concertation among organised interests

On the input side of this model, voters, parties, politicians and governments can be found in the system of political decision-making. The concept that describes institutional relations between these actors is the institutional arrangement of consensus democracy. On the bottom left, we find trade unions and employers' organisations in the political-economic arena. Relations between these actors are considered to take place in a different arena. The institutions in this model concern the institutional arrangements of corporatism. Each type of institution is expected to influence the way the actors' actions are transformed to policy outputs and socio-economic performance.

There are differences between the models of consensus democracy and corporatism on a conceptual level and there is overlap. One connection between consensus democracy and corporatism is that both allow for input of various interest groups in decision-making, policy formation and implementation. The arena of decision-making may differ, but both institutional models share the incorporation and involvement of a broad range of actors. This contrasts with majoritarian democracy, where the access for organised interests is limited. Consensus democracy and corporatism can function complementary. While some groups may not succeed in gaining influence in the political decision-making arena, they may have access to the policy-making process through interest mediation and vice versa.

The most obvious similarity between consensus democracy and corporatism is the style of decision-making that is used. Both models are based on consensus and cooperation. In this study, consensus and conflict are distinguished as the extremes of a scale. Although actors are prepared to look beyond their own short-term interests and put the public interest first, they feel no urge to cooperate and try to dominate by gaining a strong position or even a majority. Consensus democracy and corporatism are found on the consensus side of these scales, while majoritarian democracy and pluralism are seen as their counterparts.

Corporatism and consensus democracy also deviate in their range and impact. The ultimate goal of political decision-making, which is the area of consensus democracy, is making decisions that can affect every aspect of human life. The scope of corporatism is limited to social and socio-economic issues, most important of which is the regulation of wages and working conditions. In addition agreements can be made about related issues like early retirement schemes or childcare. Corporatist agreements are always limited to issues that deal with work and income and that might be relevant for workers and employers. In the end, all issues, including those arranged by unions and employers' organisations, can be overruled by political decision-making.

4.3 Linkages between consensus democracy and corporatism

The issue at hand is whether or not specific types of institutional arrangements in political systems are reflected in political-economic systems and vice versa. Lehmbruch (1979a; 1979b) was one of the first to point at the possible relation between consociational democracy and corporatism as a system of socio-economic decision-making based on consensus-building. This connection between corporatism and consensual politics is not solely built on theoretical arguments. In one of the first empirical studies with respect to this relationship, Keman (1984) concluded that the occurrence of both types of institutional arrangements is conducive to a more successful socio-economic policy.

'Our analysis has demonstrated that if the *interaction* between political and extra-political phenomena is shaped by a consensual political structure and practices on the one hand, and by a corporatist mode of interest-intermediation and conflict-regulation on the other, successful management and a more reasonable economic performance are more likely to be achieved.'
[italics in original] (Keman 1984: 166)

In a comparative study of 18 OECD countries, Lijphart & Crepaz (1991) found a strong relationship between corporatism and consensus democracy. They conclude that consensus democracy is an important independent or explanatory variable of corporatism and 'that corporatism can be thought of as a component of a more broadly defined concept of consensus democracy' (Lijphart & Crepaz 1991: 245). Keman & Pennings (1995: 273-274) 'agree that consensus democracy and corporatism may well have something in common'. However, they think that what consensus democracy and corporatism have in common can be derived from a crucial feature underlying both concepts, namely collective decision-making by means of compromise and cooperation between the relevant actors involved. They make a distinction between the role of consensus democracy (a mode of institutionalisation of political actors by referring to aspects of parliamentary democracy) and corporatist interest intermediation (the incorporation of societal actors typically by means of non-parliamentary consultation in order to avoid zero-sum outcomes of policy formation). Keman & Pennings' (1995: 279) object therefore to Lijphart & Crepaz's suggestion (1991) to add corporatism to the characteristics of consensus democracy precisely because it concerns two arenas of (potential) conflict and different types of institutionalised decision-making. The idea that both consensus democracy and corporatism are driven by the concept of consensus-building is an acceptable one, although it does not imply that they operate in a similar fashion and thereby have the same effect on the decisions made (Keman & Pennings 1995: 274). On the contrary: each combination of institutional arrangements in terms of consensus democracy and corporatism will have its own configuration and dynamics regarding policy-making.

Several authors argue that corporatism and consensus democracy are interrelated (Lehmbruch 1979a; Lijphart & Crepaz 1991). Lijphart (1999) even considers corporatism to be one of the characteristics of consensus democracy. The relationship between consensus democracy and corporatism can be analysed in two ways. The conceptual linkages can be examined and the empirical connection can be determined by means of a comparative study of democratic political systems, as shown in Chapters 2 and 3.

The main problem in comparing consensus democracy with corporatism is that both have been defined in many different ways. Both share a reference to an institutional framework that facilitates cooperation and consensus¹. The fundamental difference

between consensus democracy and corporatism is the decision-making arena in which they are considered to be relevant. Corporatism is an institutional framework that applies to the manner in which social partners operate in wage bargaining and how they are involved in socio-economic policy-making. Consensus democracy is directly relevant to political decision-making within the democratic polity. The different actors and different arenas to which corporatism and consensus democracy apply can be illustrated in the conceptual model of Figure 4.1 as discussed in Section 4.2.

Corporatism can be characterised by how workers are organised in trade union confederations, how employers are organised and what type of wage bargaining is used. Consensus democracy is characterised by a proportional electoral system, a multiparty system and more often than not oversized coalitions. Definitions and operationalisations are discussed in Chapter 2 and 3. Figure 4.2 shows the positions of twenty countries in a two-dimensional space, using the mean scores (of the period between 1965 and 1998) on the index of corporatism and consensus democracy as the coordinates.

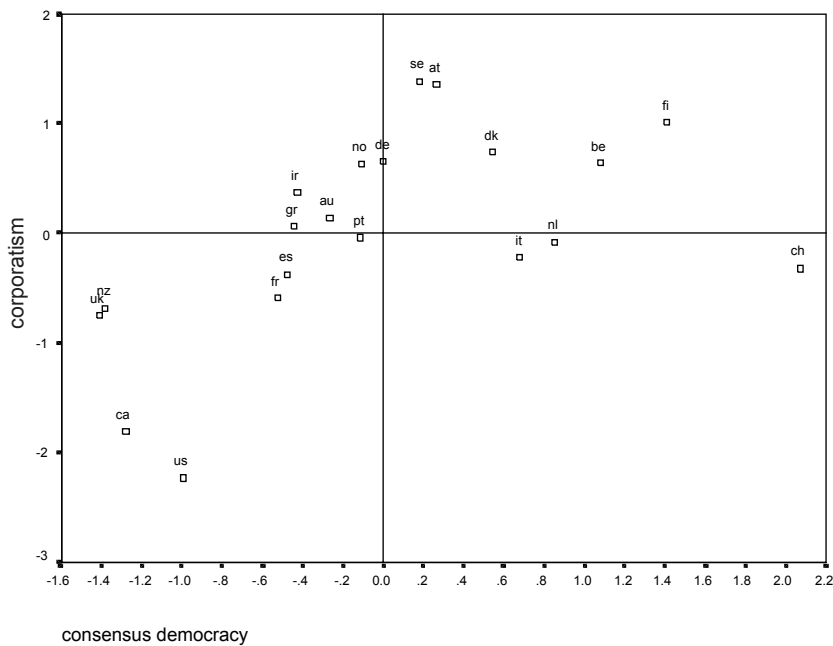


Figure 4.2 Consensus democracy and corporatism in twenty countries (1965-98)

Based on own calculations (see Table 2.7 and Table 3.4)

Country labels see Table 2.7.

Figure 4.2 depicts a medium relationship between both institutional models. The Pearson correlation coefficient is 0.54 (see Table C.4 in Appendix C). This may seem high, but the explained variation is still below 30%. All four quadrants are filled with at least three cases. However, there are no very strong cases of corporatism without consensus democracy and vice versa. Corporatism is not likely to occur in a strongly majoritarian democracy. Finland and Belgium have the highest degree of both consensus democracy and corporatism. Canada and the US are the clearest cases of majoritarian democracy and pluralism.

The positions in Figure 4.2 are based on the average of the scores in the entire period (between 1965 and 1998). However, the scores on both institutional arrangements were measured for several periods. This means that their connection may show variation through time. Tables C.3 and C.4 (in Appendix C) give the means on the scores in four time periods.

The correlation coefficients show an increase through time. The connection is lowest between 1975 and 1984 (Pearson's r is 0.41) and highest between 1993 and 1998 (Pearson's r is 0.64). In general, the correlation for this set of countries is medium-level. Based on these results it means that institutional change is apparent, is directed towards a certain convergence and trends towards positive interrelation between consensus democracy and corporatism. In other words: institutional arrangements are not static but develop through time and the empirical relationship between corporatism and consensus democracy did become stronger over time.

From Figure 4.2, four groups of countries can be distinguished. The first group - in the bottom left quadrant of the figure - is formed by four genuinely majoritarian and pluralist countries: Canada, New Zealand, the UK and the US. In the upper right quadrant of the figure, we find a second group of five countries that are more dispersed, but mainly placed in the corporatism-consensus democracy quadrant: Denmark, Finland, Sweden, Austria and Belgium. The third group is made up of three countries that fall into the consensus democracy category and score around zero on the corporatism index: Italy, the Netherlands and Switzerland. The fourth group consists of the remaining countries that are located near the centre: France, Australia, Spain, Portugal, Greece, Ireland, Norway and Germany. These countries are non-corporatist and non-consensual. These countries are not genuinely pluralist and majoritarian either.

Table 4.2 gives the sum of the average scores of consensus democracy and corporatism between 1965 and 1998. Four groups can be distinguished. The first group (with scores lower than -2.0) consists of majoritarian and pluralist countries. The second group (with scores between -2.0 and 0) are non-corporatist and

non-consensus countries. The third group (with scores between 0 and +1.0) are countries which are either consensus or corporatist. The fourth group (with scores higher than +1.0) are the consensus and corporatist countries.

According to Table 4.1, countries do not fit in the same groups as distinguished on the basis of Figure 4.2. Switzerland falls in the consensus and corporatist cluster. Norway and Germany fall into the consensus or corporatist cluster.

Table 4.1 Four categories of consensus democracy and corporatism

consensus and corporatist (4)		non-corporatist and non-consensus (2)	
Finland	2.39	Ireland	-0.05
Switzerland	1.71	Portugal	-0.12
Belgium	1.68	Australia	-0.13
Austria	1.62	Greece	-0.37
Sweden	1.57	Spain	-0.81
Denmark	1.27	France	-1.10
consensus or corporatist (3)		majoritarian and pluralist (1)	
Netherlands	0.76	New Zealand	-2.03
Germany	0.65	UK	-2.13
Norway	0.53	Canada	-3.06
Italy	0.43	US	-3.21

Source: own calculations based on Table 2.7 and Table 3.4.

For graphical presentation of comparative patterns of socio-economic performance, a new variable is composed of the combined presence of consensus democracy and corporatism by assigning ordinal scores from 4 (both consensus and corporatist) to 1 (majoritarian and pluralist). The categories in between receive ordinal scores of 3 (consensus or corporatist) and 2 (non-corporatist and non-consensus). The distinction between these latter categories is that countries in the 'consensus or corporatist' category have at least consensual or corporatist institutional arrangements, while corporatism and consensus democracy are not present for the non-corporatist and non-consensus group of countries. Four countries belong to the 'consensus or corporatist' category. The Netherlands and Italy share characteristics of consensus democracy and Germany and Norway are corporatist to a certain extent.

The countries in each of the four categories share several common characteristics from to some extent different families of nations (see also Castles 1993). The majoritarian and pluralist category is made up of the UK and three former British

colonies. They share, for example, some common cultural and historical background. Four of the six non-corporatist and non-consensus countries are southern European countries. Greece, Spain and Portugal have experienced a transition to democracy in the 1970s. Ireland has had a comparatively low level of GDP per capita as have Portugal and Greece. Australia has apparently little in common with the other countries in this cluster and appears to be an outlier. Countries in the consensus or corporatist category have a large welfare state. Three of these countries are continental and have (had) a dominant Christian Democratic party. The consensus and corporatist category consists of Northern European countries and Belgium, Austria and Switzerland.

Another way of looking at the empirical relationship between both models is to examine the relation between both indexes and their underlying indicators. These correlation coefficients² can be found in Table 4.2.

Table 4.2 Correlations between indicators and indexes of consensus democracy and corporatism (1965-98)

	Consensus democracy	Corporatism	Coefficient used
Effective number of parliamentary parties	0.87**	0.41	R
Disproportionality	-0.59**	-0.48*	R
Electoral system	-0.73**	-0.67**	Rho
Type of government	0.61**	0.28	Rho
Dominance government	0.48*	-0.09	R
Centralisation bargaining	0.62**	0.87**	Rho
Coordination bargaining	0.68**	0.80**	Rho
Trade union density	0.32	0.70**	R
Coverage rate	0.41	0.77**	R
Number of cases	20	20	

* Significant at 5% level ** significant at 1% level

R: Pearson's r; Rho: Spearman's Rho

Source: own calculations based on Table 2.7 and Table 3.4.

The five indicators of consensus democracy are medium to strongly related to the index of consensus democracy³. These correlation coefficients are printed in bold. Of course, it is no surprise that the index of consensus democracy is highly correlated to the indicators on which it is based. These indicators are lesser related to the index of corporatism, except for the electoral system. More proportional electoral systems coincide with higher levels of corporatism. The indicators of corporatism have a weak to medium relation with consensus democracy.

These results lead to the conclusion that the features of the consensus model of democracy are not very strongly connected to corporatism and vice versa, which indicates the absence of highly overlapping indices. This set of countries for this period gives no empirical evidence of a strong relation between both models. Added to the fact that both models are based on different concepts, it can be concluded that a possible coincidence of consensus democracy and corporatism is no reason to assume a systematic overlapping connection.

4.4 Contextual variables

This section discusses several contextual variables that can influence the working of the institutional arrangements of consensus democracy and corporatism. This is relevant for at least two reasons. First of all, these institutional arrangements do not stand on their own, but are also connected to other factors. Second, the impact of institutional arrangements on socio-economic policy-making and performance may be influenced systematically by these contextual variables. An additional reason to look at the relationship with contextual variables is to examine whether or not consensus democracy and corporatism share the same background.

Table 4.3 presents the means of several contextual variables over the four categories of the linkage between consensus democracy and corporatism. One group of contextual variables consists of political factors. These political factors can be understood in several ways. One meaning of the term political can be the positions of parties and governments in ideological terms. There is a possible connection between corporatism, leftist political parties and governments dominated by leftwing parties (Schmidt 1982; Cameron 1984). Leftist parties and organisations can make different policy choices and for example give more priority to employment than to price stability. Social democratic parties are traditionally part of a broader labour movement, in which trade unions also play an important role. Mobilising the working class was necessary to transform capitalist economy in a classless society. Social democratic parties participated in elections and in cabinets. At the same time trade unions tried to improve the working and living conditions of the working class. The participation of these leftwing parties and organisations can be considered a 'democratic class struggle' (Korpi 1983). In Scandinavian countries this resulted in cooperation between social democratic governments and trade unions. In fact, the scope shifted from an overthrow to an adjustment of the capitalist economic system. Social democrats became part of the ruling class in politics and trade unions started to cooperate with employers' organisations. Hence, through corporatism class conflict changed into a consensus-oriented model of policy-making.

The relationship between social democrats and trade unions is obvious. To some extent there is also overlap between Christian Democratic ideology and harmonic industrial relations. Christian Democrats reject class conflict and corporatist institutional arrangement can serve as an alternative. Corporatism can be seen as the result of the politics of mediation, which is an important strategy of Christian Democracy (van Kersbergen 1999). The relationship between left-wing parties and governments and corporatism is not exclusive however. Christian Democratic parties and governments dominated by conservative centre parties may have contributed to corporatist institutions as well.

In my view, there is no compelling argument that left-wing or right-wing parties and governments are connected to either consensus or majoritarian democracy. Parties are more dispersed from left-wing to right-wing in a consensus democracy. In a majoritarian political system parties have a tendency to move to the policy position of the median voter (Downs 1957).

The relationship between consensus democracy and federalism is discussed in Chapter 2. Lijphart (1999) assumes that federal institutions contribute to the counter-majoritarian working of a political system. However, by adding other factors, such as central bank independence and corporatism to the same dimension, Lijphart obscures his own model. In his 1984 book, Lijphart made a clear distinction between executive-legislative features and federal-unitary features. In 1999, this second dimension became a virtual garbage can of several very distinct variables. As argued in Chapter 2, federal institutions function as veto points, which moderate the dominant role of a ruling party. But these federal institutions do not necessarily contribute to more cooperation and consensus in a political system. The American and German political systems are examples of the kind of federalism that can lead to inertia and conservative policy-making, i.e. a high probability of rejecting changes of the status quo, because of the veto power possessed by several actors (see Scharpf 1988).

A factor that recently received attention in political science is the role of the central banks. It is argued that the interaction of central banks and political-economic institutions plays a role in the success of national macro-economic policy (Iversen 1999; Franzese & Hall 2000). Lijphart (1999) argues that the role of the central bank is part of consensus democracy, because of its relative autonomous power. In a majoritarian democracy, government seeks total control of macro-economic management, including monetary policy. It is questionable whether or not independent central banks really belong to consensual institutional arrangements (see Busch 2002). Independent central banks function as additional veto points that limit the power of the central government. But this does not necessarily increase

the consensual character of institutions. In Tables 4.3 and C.5 (Appendix C), central bank independence (CBI) is calculated as the mean of the z-score of the indexes of Franzese & Hall (2000) and Busch (1993: 60). The central banks of Germany, Switzerland and Austria score highest on independence, while the central banks of New Zealand, Portugal and Spain score lowest, as averages over the period 1965-98.

Other factors that are possibly related to the institutional arrangements of consensus democracy and corporatism are the size of a country and the openness of the economy. Katzenstein (1985) argued that small countries with an open economy are more vulnerable to changes on the world market. For this reason, these small countries protect themselves by national corporatist institutions. Examples of small countries with an open economy are Sweden and the Netherlands. Both countries strongly depend on export and import and have large multinationals. A relationship between consensus democracy and size of a country is not obvious. Finally there can be an influence of internationalisation of politics and economy. Although internationalisation does not affect all countries the same way, international political and economic cooperation have gained importance over the past decades. The impact of internationalisation on corporatism can be two-fold. On the one hand, political and economic cooperation can limit the scope of national institutional arrangements and national macro-economic policy. Because of this, national corporatism can lose its importance (see also Traxler, Blaschke & Kittel 2001). On the other hand, internationalisation can force national actors to prevent the loss of macro-economic steering at national level. This might explain the return of social pacts in European countries since the mid 1990s (Rhodes 1998). Some have therefore argued that national political systems have not lost their sovereignty and autonomy to act (Milward 2000; van Kersbergen, Lieshout & Lock 1999) and thus consensus democracy and corporatism remain relevant.

The mean scores on several contextual variables in four categories are reported in Table 4.3 for the period 1965-98. The averages in four time periods are shown in Table C.5 (see Appendix C).

Table 4.3 Contextual variables (mean per category 1965-98)

Cluster	1	2	3	4
Cabinet composition (from right to left)	1.64	2.4	2.51	2.87
Left parties in government (%)	16	35	36	48
Work days lost due to strike	8344	2174	3116	299
Number of industrial disputes	1196	1456	838	249
Central bank independence	-0.09	-0.69	0.19	0.37
Imports + exports as % of GDP	45.3	54.3	68.6	75
Openness of the economy	11.4	8.3	11.6	10.8
European union (1=member; 0=non)	0.19	0.58	0.75	0.35
Number of cases	4	6	4	6

Conscorp clusters: (1) majoritarian and pluralist (2) non-consensus and non-corporatist (3) corporatist or consensus (4) corporatist and consensus.

Sources: cabinet composition from (1) rightwing to (5) social democratic (Schmidt (1996: 160); Comparative Political Data Set); left parties in government (Comparative Political Data Set 2000); central bank independence: higher and positive scores indicate more independence (Franzese & Hall 2000; Busch 1993: 60); imports and exports (OECD, Economic Outlook, various years); openness: a composite index that measures, among other indicators, legal restrictions on exchange and capital flows (Comparative Political Data Set 2000); proportion of agriculture/industry/service employment (OECD Labour Force Statistics 2000).

Table 4.3 shows that corporatist countries and consensus democracies have more social democratic governments and more leftist voters. This cluster is also characterised by a substantially lower number of strikes and less work days lost due to strikes. Central banks appear to be more independent in consensus democracies and corporatist countries, which have more import and export and a more open economy.

An interesting result from the average scores over the four clusters is that not all contextual variables, such as central bank independence, have a linear relation to the institutional variables. For this reason it is necessary to look at both the mean scores and the correlation coefficients, which are given in Table 4.4.

Table 4.4 Correlations between institutional and contextual variables (based on averages 1965-98)

Correlations	consensus democracy	corporatism
Pearson's r		
Left parties in government (%)	0.22	0.74**
% left votes	0.18	0.68**
Work days lost due to strike	-0.35	-0.69**
Number of industrial disputes	-0.33**	-0.51*
Central bank independence	0.32	-0.00
Imports + exports as % of GDP	0.41*	0.44
Cabinet composition (from right to left)	0.23	0.75**
Spearman's Rho		
Openness of the economy	0.10	-0.21
European union (1=member; 0=non)	0.23	0.15
** significant at the 1% level	Number of cases 20	
* significant at the 5% level		

Sources: cabinet composition from (1) rightwing to (5) social democratic (Schmidt (1996: 160); Comparative Political Data Set); left parties in government/ % of left votes /work days lost due to strike /number of industrial disputes (Comparative Political Data Set 2000); central bank independence: higher and positive scores indicate more independence (Franzese & Hall 2000; Busch 1993: 60); imports and exports (OECD, Economic Outlook, various years); openness: a composite index that measures, among other indicators, legal restrictions on exchange and capital flows (Comparative Political Data Set 2000).

Table 4.4 presents the correlation coefficients between consensus democracy and corporatism on the one hand and several previously discussed contextual variables on the other hand. The results of Table 4.4 show that consensus democracy has no significant relation and corporatism a significantly positive relation with leftist governments and left votes. These results indicate that mobilisation of the working class in the democratic class struggle plays coincides with corporatism and consensus democracy.

Table 4.4 indicates a weakly negative relation between consensus democracy, working days lost and the number of industrial disputes. Corporatism is medium negatively related to working days lost and the number of industrial disputes. This indicates that both institutional arrangements are weakly connected to more peaceful industrial relations. How to interpret these results remains a problem. Do peaceful industrial relations facilitate corporatist institutional arrangements or are they an effect of corporatism?

Consensus democracy is weakly positive, but not significantly related to independent central banks. Corporatism is not connected to central bank independence at all. This is interesting because Iversen (1999) argues that the success of monetary policy depends on interaction between corporatism and central banks. The analysis presented in Table 4.4 does not confirm such a connection. Table 4.3, however, indicates that the relationship between central bank independence and institutional arrangements is not entirely linear. Central banks are more independent in corporatist countries and consensus democracies and less so in the non-consensus and non-corporatist cluster.

Both consensus democracy and corporatism are related to countries with a more open economy in terms of the import and export share of the GDP. This fits Katzenstein's argument (1985) that small open economies use corporatism as a strategy to cope with international competition. If another measurement of openness of the economy is used, a composite index developed by Armingeon, Beyeler & Menegale (2000), the relationship is much weaker.

Internationalisation was operationalised by the openness of the economy in two different ways; by measuring the import and export share of the GDP and by a composite index that measures, among other indicators, legal restrictions on exchange and capital flows (Armingeon, Beyeler & Menegale 2000). Another manifestation of international cooperation is the membership of international organisations, such as the European Union. There is no relation between consensus democracies and EU membership. Table 4.3 shows a non-linear relationship. EU countries seem almost absent among pluralist and majoritarian countries and are dominant in the consensus or corporatist cluster.

The relationships between these contextual variables and consensus democracy are not always the same as in the case of corporatism. Corporatism is for example stronger connected to leftist governments and the share of leftist votes. This confirms the conclusion that consensus democracy and corporatism are different types of institutional arrangements. Both institutional arrangements are connected to different contextual variables.

4.5 Conclusions

This chapter discusses linkages between consensus democracy and corporatism. Two ways are used to analyse the linkages between these institutional arrangements: looking at the conceptual differences and similarities, and the empirical connections between the indexes and the underlying indicators.

The correlations between the indexes of consensus democracy and corporatism indicate a weak to medium relationship. This relationship becomes slightly stronger

through time. The group of twenty countries has been divided in several subgroups. On one extreme we find countries where a combination of majoritarian democracy and pluralism is found, on the other extreme we find several countries belonging to consensus democracy and corporatism. The remaining countries belong to either of the types. They share a mixed proportion of characteristics of consensus democracy and corporatism. When looking at the development of these indexes through time, it seems that both institutional arrangements have their own dynamics. They do not necessarily develop in the same direction through time.

The indexes are based on different indicators. When looking at the correlations between all indicators and indexes, the differences are obvious. The indicators of consensus democracy have a weak to medium relation to the index of corporatism and vice versa. In this chapter the indexes of consensus democracy and corporatism are related to several contextual variables. These analyses clearly show that the relationship with these contextual variables is not the same for each variable. In other words, consensus democracy and corporatism are not systematically connected to the same external factors. The findings in this chapter confirm the conclusions of Lane & Ersson (2000: 244) that both sets of institutions have to be clearly distinguished.

Conceptually the models of corporatism and consensus democracy may share some underlying characteristics, yet they are not the same. Consensus democracy and corporatism may coincide in some cases, but both institutions have their own dynamics. Comparing consensus democracy and corporatism leads to the conclusion that these institutional arrangements can and should be separated from each other on a conceptual level. The empirical analytical review demonstrates that they appear differently across time and place and are differently related to context.

Notes

¹ For a definition of cooperation and consensus see Chapter 1, page 6-7.

² Spearman's Rho is used for ordinal variables.

³ Note that the signs of disproportionality and electoral system are negative as expected. Consensus democracies are less disproportional and have a more proportional electoral system.

The institutional dynamics of consensus and conflict

5 THE IMPACT OF CONSENSUS DEMOCRACY AND CORPORATISM ON SOCIO-ECONOMIC POLICY-MAKING AND PERFORMANCE

5.1 Introduction

Central issue is the impact of consensus democracy and corporatism on socio-economic policy-making and performance analysed comparatively. Indexes of consensus democracy and corporatism, developed in Chapters 2 and 3, are used to examine the effects of these institutions on socio-economic policy-making in Western democracies since the 1960s. Do these institutional arrangements have a better performance as suggested by several authors (Crepaz 1992; Lijphart 1999)? Lijphart (1999: 274) concludes that:

‘consensus democracies have a better performance record than majoritarian democracies, especially with regard to the control of inflation but also, albeit much more weakly, with regard to most of the other macroeconomic performance variables’.

Yet others suggest that the positive impact of corporatism on socio-economic performance has declined (Therborn 1987) or is the effect of corporatism more complex and dependent on conditions (Flanagan 1999)? Is the positive effect of consensus democracy on performance overestimated (Anderson 2001)? The answer to these questions will not be a straightforward confirmation or rejection. The patterns found in this chapter are in fact more complex and we can observe variations through time.

Chapter 4 discussed the linkages between corporatism and consensus democracy. Yet, the specific purpose of this research lies not merely in their relationship per se but in the way the interactions between the arenas have shaped socio-economic policy across time and systems. The institutional context and institutional change are linked to the behaviour of the actors. And this process is related to the resulting socio-economic policy.

5.2 Institutions and performance

The research on the effect of corporatism on socio-economic performance has been extensive (see e.g. Schmidt 1982; Keman 1984; Keman, Woldendorp & Braun 1985; Therborn 1987; Crepaz 1992; Woldendorp 1997; Flanagan 1999; Wilensky 2002). The general hypothesis is that corporatist institutional arrangements allow governments to develop more effective socio-economic policies. Stable corporatist institutions presuppose successful political exchange of moderate wage demands against moderate price policies, which contributes to a lower rate of unemployment.

'Consensus democracy matters' hypothesis

Lijphart (1999) and Crepaz (1998) disagree with what they call 'the conventional wisdom' that governments in majoritarian democracies are more effective – i.e. that policy implemented in these political systems have a stronger effect – and have a higher performance. Lijphart (1999) believes that consensus democracies are not outperformed by majoritarian democracies and Crepaz (1998) contends consensus democracy to contribute to more efficient and responsive decision-making. A crucial characteristic of consensus democracy is the proportional electoral system. Proportionality leads to a better representation of the interests of the people. This is in contrast with majoritarian systems that neglect the interests of considerable minority groups. This leads to the 'consensus democracy matters' hypothesis.

The positive effect of consensus democracy on performance is contested by Anderson (2001). He believes that the positive effect of consensus democracy is limited and that the effect that Lijphart found in his analysis is mainly caused by corporatism and central bank independence, two factors that are part of Lijphart's measurement of consensus democracy. As already argued in Chapters 2 and 4, the operationalisation of consensus democracy by Lijphart (1999) is too broad. Corporatism and central bank independence are something different from the institutional arrangements of consensus democracy and cannot be used as indicators of consensus democracy. Moreover, the primary goal of consensual institutional arrangements is to prevent deep-seated societal conflicts and secure a stable democracy. The contribution to a better socio-economic performance can be seen as a goal of any type of (democratic) government, be it consensus or majoritarian democracy.

'Corporatism matters' hypothesis

While the institutional arrangements of consensus democracy are primarily related to the stability of the political system, the institutions of corporatism deal explicitly with socio-economic policy-making. The impact of corporatism has been debated for several decades. The first studies on this subject found a positive impact of corporatist institutions on performance (Schmidt 1982; Cameron 1984). A positive effect which became questionable in later years (Therborn 1987; Flanagan 1999).

Early studies were positive about the impact of corporatism on performance. Schmitter (1981) finds that societal corporatism contributes to lower unruliness (a combined index of collective protest, internal war and strike volume) in the period of the 1960s until the early 1970s. Cameron (1984) finds that corporatism and leftist government rule contribute to lower inflation and lower unemployment. Castles

(1987: 386) reports 'a negative association between neocorporatist bargaining and inflation in the crisis of the 1970s (1974-79)', but 'there is no significant relationship of a similar kind in either the 1960s (1960-73) or in the 1980s (1980-84)' and 'there is a consistent [...] relationship between neocorporatism and unemployment in all periods.'

Since the late 1980s the positive socio-economic effects of corporatism has been doubted. Therborn (1987: 259) stated that 'there is little evidence that corporatism matters as a determinant of economic outcomes'. Corporatism did matter in the past, but nowadays it has little explanatory and prescriptive power.

Crepaz (1992) tested the hypothesis that the impact of corporatist arrangements declined during the 1980s. Crepaz (1992: 161) concluded that corporatism continued to matter, even in the 1980s (see also Keman 1993). Countries with corporatist institutions managed to keep inflation and unemployment rates low. Crepaz concluded that corporatism had not lost its capacity for policy guidance. An active corporatist position can be seen in contrast with a more passive role of the government in a more liberal ideology. Crepaz' empirical findings suggest that, both in the 1970s and the 1980s, corporatism had a positive influence on both unemployment and inflation. Yet this does not mean that corporatism promotes economic growth in general. Corporatism had no significant impact on economic growth during any period (Crepaz 1992: 161). Hence, corporatism is mitigating conflict and constraining wages and inflation, but does not produce economic wealth per se.

Woldendorp (1997) evaluated the positive connection between corporatism as a form of public policy formation, and macroeconomic performance for eight small West European countries between 1970 and 1990. Based on a comparative analysis of the macroeconomic performance (measured by economic growth, inflation rate, unemployment rate, budget surplus or deficit, public debt and trade balance) Woldendorp concluded that countries with a strong system of corporatism did not show a higher performance. Woldendorp (1997: 70) concluded therefore that corporatism does account for certain types of policy formation and implementation across these countries, but is not directly related to a better macroeconomic performance.¹

Disagreement about the effect of corporatism on socio-economic performance continues to exist. One of the problems is that the many empirical studies that were done to this relationship are difficult to compare, because all of them use different operationalisations of both the dependent variable, performance, and the independent variable, degree of corporatism.

A crucial problem lies in the extent to which levels and changes of the dependent variable are due to corporatist institutional arrangements, or to other possible factors. For this reason, other independent variables are also included in the analyses as control variables. These sophistications lead to better fitting models, but the results of the analysis become largely dependent on various different conditions and are consequently more difficult to interpret. On top of that, it makes a comparison of the different empirical studies even more difficult.

Other factors that can affect the role of institutions are the size of a country and the openness of the economy. Katzenstein (1985) showed that a group of small countries developed a neo-corporatist strategy to maintain their position on the world market. At the same time these small countries depended heavily on foreign trade and they had almost no power to affect world market developments. The only remaining possibility was to adjust both domestic production and relations between workers and employers to secure their position on the world market. Katzenstein explained the superior socio-economic performance of these small countries by the corporatist institutions they developed to overcome the negative effects of the world market developments. Opposed to this optimistic conclusion is Olson's thesis on institutional sclerosis. Olson (1982) argued that distributional coalitions are only serving their own short-term interests as opposed to the collective interests. This will lead to a sub-optimal outcome of the prisoners' dilemma. The individual interests of the actors cannot be combined with the fulfilment of the most optimal collective interest. Olson states that only large and encompassing organisations serve collective interests. But according to Olson the formation of such large organisations is very difficult.

The institutional arrangements of corporatism do not have a direct effect on performance, but there are intermediating mechanisms. Interest groups and government make a package deal about wage moderation and social policy. Wage moderation leads to lower production costs, which stimulate exports and creates jobs. As a consequence, unemployment decreases. Flanagan (1999) warns against overestimating the effect of corporatism. The effect of corporatism is constrained by the time dimension (Flanagan 1999). Corporatism might have mattered in the past, but the positive effect on performance has declined. Perhaps corporatism is positively related to performance in certain time periods. This positive effect is not very strong and sustainable. Moreover, the effect of corporatism is likely to be constrained by international developments, such as international political and economic cooperation and international flows of trade and capital. The national capacity for macro-economic steering by the state has eroded.

Calmfors & Driffill (1988) argue that the relation between the centralisation of wage bargaining and the level of unemployment is hump-shaped. The bargaining modes at the extremes, i.e. centralised and decentralised, have lower levels of unemployment than wage bargaining at the sector level, which is in between. Unions and firms at the sector level can try to externalise the negative effects of wage drift to other firms. This is much more difficult at macro and firm level. If firms and workers are well organised at macro level, they are aware of this threat and are more prepared to cooperate.

Unger & van Waarden (1999) conclude that 'interest associations are not necessarily detrimental to economic performance and growth'. Alvarez, Garrett and Lange (1991) find that densely and centrally organised labour movements combined with leftist governments can promote economic growth and reduce inflation and unemployment. Beck & Katz (1993) confirm the positive effect on economic growth, but question the reducing effect of inflation and unemployment, due to incorrect estimates of the standard errors. Compston (1997: 146) finds that 'union participation in economic policy making was consistently associated with lower unemployment in the 13 West European countries covered during the period 1972 to 1993'. Kittel (2001) finds that 'countries with uncoordinated labour markets respond less flexibly to external shocks than those that rely on pattern setting or, to a somewhat lesser degree, on peak-level coordination'. Armingeon (2002) finds that consensus democracy does not perform worse than majoritarian democracy and corporatism is associated with lower unemployment and inflation.

An influential empirical study was done by Calmfors & Driffill (1988: 47) who question

'the conventional belief that centralisation of wage bargaining is always preferable to decentralisation from the point of view of macroeconomic performance. [...] Intermediate systems (such as, for instance in, Belgium and the Netherlands, and maybe also in Germany!) with bargaining at the industry level are likely to contribute the least to wage restraint.'

OECD Employment Outlook 1997 reports the opposite, namely that 'there seems to be little robust evidence for either a U-shaped relation between the structure of collective bargaining and employment or a hump-shaped relation with the unemployment rate' (OECD 1997: 82).

Other recent studies are ambiguous about the positive impact. Hicks & Kenworthy (1998) conclude that neocorporatist institutions reduce inflation, but limit the effective economic growth. Kenworthy (2000: 34) concludes that corporatism appears to be conducive to low unemployment, but that there is no evidence of a link between corporatism and real wage moderation.

Most of the recent studies indicate that the impact of corporatism depends on other conditions. Swank & Martin (2001) stress the importance of employers' organisations. They conclude that 'where employers are centralised, cohesive and economically coordinated, social welfare effort is greater' (Swank & Martin 2001: 914). Garrett & Way (1999) argue that the macroeconomic consequences of corporatism are affected by the role of public sector unions. Garrett & Way (1999: 412) demonstrate that '...so long as public sector unions are not too strong [...] corporatist institutions continue to promote both price stability and low rates of unemployment'.

In some recent studies the role of the central bank has been linked to corporatism. Franzese & Hall (2000) and Iversen (1999) argue that the impact of the central bank independence is dependent on the scope and level of wage bargaining. An independent central bank gives a higher priority to price stability than political actors do. Higher independence of central banks can therefore contribute to better socio-economic performance. Independent central banks only manage to keep inflation low when collective bargaining systems are able to moderate wage demands. This is expressed in the expectation that centralised wage bargaining has a positive impact on performance, if accommodated by the monetary regime. Several authors (Iversen 1999; Franzese & Hall 2000; Traxler, Blaschke & Kittel 2001) argue that the interaction of central bank independence and wage bargaining has an impact on socio-economic performance. Centralised and coordinated wage bargaining lead under central bank independence to lower inflation rates and lower unemployment than decentralised and uncoordinated wage bargaining.

As already explained, Lijphart (1999) links consensus democracy to more independent central banks. Central bank independence is lower in majoritarian democracies where government controls fiscal and monetary policy entirely. It is doubtful that central bank independence can be seen as part of consensual institutions.

During the 1970s and 1980s, the neo-corporatist literature was very optimistic about the positive impact of neo-corporatist institutions on performance (Schmidt 1982; Cameron 1984). In past decades, some authors became sceptical about this relationship (Therborn 1987; Calmfors & Driffill 1988; Flanagan 1999). Nowadays a simple one-to-one causal relationship between corporatism and performance is ruled out. The positive impact of corporatism may depend on other factors, such as consensus democracy, openness of the economy and central bank independence.

5.3 Theoretical framework and hypotheses

Socio-economic policy can be seen as the result or outcome of the decision-making process. Political and economic actors, such as political parties, governments, trade unions and employers' organisations, shape socio-economic policy. A distinction must be made between policy outputs and performance. Policy outputs reflect the actual implementation of political decisions. This output is shaped by actual policy choices. Examples of policy output are the level of welfare spending or of expenditures on labour market policy. Performance measures the actual achievement and the societal effects of policy. Unemployment rates and economic growth are indicators of socio-economic performance. Political and economic actors try to decrease the unemployment levels by developing specific types of labour market policy. However, the focus of this study is not to explain performance levels as such, but the extent to which political-institutional arrangements influence performance. Central in this analysis is therefore the extent to which institutional arrangements matter.

What is the importance of institutions for socio-economic policy-making? It has been argued that the room to manoeuvre for the political and economic actors in shaping socio-economic policy is constrained by institutions (March & Olsen 1989; Steinmo, Thelen & Longstreth 1992; Weaver & Rockman 1993; Keman, Paloheimo & Whiteley 1987). This first line of argument in explaining the relationship between institutions and socio-economic policy-making perceives institutions as exogenous factors that shape and limit the policy choices available for the political actors. In this first approach, institutions explain levels and changes of performance. A second way of understanding this relationship is to incorporate the actors' capacity to create or change institutions. Institutional arrangements can help to generate a setting in which political and economic actors can come to agreements that would otherwise have been impossible. Corporatism, for example, has been instrumental in small countries, which are largely dependent on their international trade, as a strategy to improve or secure their position on the world market (Woldendorp 1995; Katzenstein 1985). In this second approach, performance can lead to institutional change. In times of crisis, actors realise the urgency to change socio-economic policy. As a result, these actors try to adjust the existing institutions or to develop additional institutions (see Visser & Hemerijck 1997).

Corporatist institutional arrangements are conducive to agreements between social partners and government on wage moderation, labour market policy and working conditions. The main advantage of consensual wage bargaining is that trade unions and employers' organisations can agree on a package deal of measures that account for long term interests and are broader than only agreements on the level

of the wages. In corporatist countries social partners develop a socio-economic policy that is in accordance with the national interests rather than a situation in which interest groups are only interested in their short-term benefits.

In this study, institutions are considered to be the intermediates between actors' preferences and the outcomes of the process. This means that the institutional context is supposed to determine the output of the decision making process. Institutions are considered to influence outcomes which even may well influence actors to change or create institutional arrangements in order to adjust outputs. Several hypotheses about the relation between institutional arrangements are tested. First, corporatist institutions allow agreements between unions and employers' organisations on wage moderation. This will have positive effects on inflation and unemployment. The impact on economic growth is not necessarily very strong. Corporatism can contribute to consolidation of economic growth, but does not lead to a comparative advantage over non-corporatist countries per se. The highest priorities of trade unions are employment and social protection for their members. Macro-level economic growth is a positive spill over. Second, small countries frequently use corporatism as a strategy to safeguard their position on the world market. By contrast, large countries will have more difficulties with developing corporatist institutions (Katzenstein 1985; Olson 1982). Third, the members of interest groups become increasingly diffuse. Trade unions were traditionally strongly supported by male blue-collar industry sector workers. This strength of this group has weakened with increasing service sector employment and increasing labour participation of women and immigrants.

Decision-making in consensus democracy may seem slow and inefficient; the choices made are based on a solid majority, without neglecting the interests of minorities in society. Of course, it is not always possible to make unanimous decisions, but the most important function of the institutions of consensus democracy is that relevant groups have the opportunity to express their voice. The resulting outcome may be not the most preferred, but at least they will agree about the procedure that is used. Hence, the main advantage is that decisions made carry a much stronger support. For this reason, Crepaz (1996) argues that policy-making in consensus democracies is more efficient and more responsive. It is more efficient because fewer actors will try to obstruct it and it is more responsive to voters' preferences, because more actors are involved. Therefore, according to Crepaz consensus democracies have better performance than majoritarian democracies.

The welfare state literature has studied development and possible retrenchment of welfare states and looked for explanations in historical and demographic fields. Later, political variables, such as the political colour of governments and the strength

of social democratic and Christian Democratic parties were taken into account as well (Esping-Andersen 1990; van Kersbergen 1995). Institutional arrangements can have consequences for the policy choices that are made regarding the tasks and size of the welfare state. Since corporatist institutions rely on how interest groups are involved in socio-economic policy-making, it can be expected that a greater involvement of these groups will have a strong impact on the creation and expansion of the welfare state and eventually on the reform of the system of welfare and care.

Crepaz (1998) argues that parliamentary systems with proportional representation are more successful in representing the diffuse interests of the general public. In these systems political parties are stronger and capable of developing an extensive political programme, while in presidential systems with single member districts, such as the United States, parties are weak and legislators are pressured by lobbies. The majoritarian political system enables government to make radical policy changes. These changes can be totally reversed when a new government is installed. In a consensus democracy, policy is the result of a long process of compromising. Once actors have agreed on such a policy, it has a strong support and is quite difficult to change and to reform certain given citizens' rights, especially social rights. Therefore, it can be expected that welfare state provisions are more extensive in countries with a consensual political system. In a majoritarian democracy it is possible for a political party to gain political power and to implement an extreme policy programme. However, in the race between the two main parties to gain a majority vote, their programme is adjusted to please the median voter. In other words, the Downsian behaviour of political parties in a majoritarian system will decrease differences between available policy proposals. The policy most likely to be chosen is found near the political centre².

Corporatist institutional arrangements allow interest groups better access to the decision-making process. In these systems, the demands of labour organisations for an extensive system of welfare provisions have a higher chance to be honoured by government and parliament. Government and legislators are more pressured by interest groups. Moreover, when unions are able to make agreements with employers' organisations, the other political players are more willing to accept these agreements as a basis for their decision-making, because support of the main actors in the field becomes a given. It can be argued that corporatism facilitates the development of a welfare state. What is the impact on welfare state reform? Two opposite effects are possible. On the one hand, established socio-economic policy is difficult to change. Once workers have gained certain social rights, they will not be given up easily (Pierson 1994; 2001; Kuhnle 2000). On the other hand, when

both unions and employers organisations agree on a reform, it becomes easier for the political actors to make this decision (Ebbinghaus & Hassel 2000). The 1980s saw a decline of the influence of unions on national level. Moreover unemployment increased rapidly. Unions were prepared to make agreements with employers' organisations and government on wage moderation and welfare state reform. In return, trade unions were back at the negotiating-table, where they could regain influence, and hope for economic recovery, including more employment, which consequently would strengthen their position among the workforce. Corporatism is expected to coincide with higher welfare states until the mid 1990s. Corporatist institutions have contributed to welfare retrenchment or moderation of welfare state growth in some countries in the 1990s.

Table 5.1 gives an overview of the hypothesised effects of corporatism and consensus democracy on socio-economic performance. The institutions of consensus democracy are expected to neither have a positive nor a negative impact on performance. Institutions of consensus democracy play a role for political stability, but not for socio-economic policy, with the exception of social policy. Since more parties are involved in coalition government and minority groups have better access to the political arena, consensus democracy is expected to lead to higher social expenditures. Corporatism is expected to have no positive or negative effects on GDP per capita and economic growth, but it is expected to be related to socio-economic performance dealing with work, wages and prices. Because of coordinated and centralisation of groups action in a corporatist institutional setting, general interests are served better than in pluralist countries. In corporatist countries employers' organisation and trade unions are able to make agreements about wage moderation and stimulation of employment. Therefore, corporatism is expected to contribute to lower inflation rates and unemployment rates. Corporatism favours better access to decision-making and policy-making to many small groups than pluralism. In corporatist countries these groups have more and more efficient channels to claim the development of social policy. Thus, corporatism is expected to be associated with higher social expenditures.

Table 5.1 Hypotheses of the impact of institutions on performance

Type of performance	Consensus Democracy	Corporatism	Indicator used
GDP per capita	Neutral	Neutral	GDP per capita (in constant US Dollars) OECD
Economic growth	Neutral	Neutral	growth of real GDP (% change from previous year)
Unemployment	Neutral	Lower	standardised unemployment rate OECD
Inflation	Neutral	Lower	consumer price index (% change from previous year)
Misery index	Neutral	Lower	unemployment plus inflation
Performance index	Neutral	Higher	economic growth minus inflation minus unemployment
Social expenditures	Higher	Higher	total social security benefit expenditure as % of GDP

Table 5.1 shows that effects of consensus democracy and corporatism on performance are not the same. Consensus democracy only makes a difference for social expenditures, while corporatism also matters for unemployment and inflation. As a result corporatism also has an impact on the misery index and the combined performance index.

GDP per capita expresses the wealth of the population in a country. Economic growth measures the degree to which the economy is expanding. Unemployment measures the degree to which workers are able to find a job. Low inflation rates indicate price stability, which means that people's purchasing power does not decline. Misery index expresses the mix of unemployment and inflation and a high degree of misery indicates a greater distance of the Phillips curve. The performance index combines economic growth, unemployment and inflation. Social expenditures show how much comparatively is spent to social policy.

5.4 Empirical findings

The impact of institutional arrangements on several socio-economic indicators is examined for twenty Western advanced capitalist democracies between 1965 and 1998. First, a general overview is given by reporting mean scores on several performance indicators. Second, the mean scores of four clusters, as discussed in Chapter 4, are presented in graphs. Third, bivariate correlation coefficients are presented. Fourth, several multivariate regression models are tested, in which the effects on socio-economic performance are controlled for contextual factors.

Tables C.6 through C.12 in Appendix C present the average scores on several performance indicators in several time periods. Tables C.6 and C.7 show average levels of GDP per capita and economic growth. Tables C.8 and C.9 show average

unemployment levels and inflation rates between 1965 and 1998 for twenty countries. A first inspection of Table C.6 and C.7 shows that most countries experienced their strongest growth between 1965 and 1974, later growth was smaller. Switzerland, Norway and the US are the three richest countries. Portugal, Greece and Spain are the countries with the lowest GDP per capita. Portugal and Ireland have the highest growth rates, by means of the average annual growth. It seems that Portugal and Ireland are catching up. New Zealand, Switzerland, the UK and Sweden are the countries with the lowest economic growth.

Table C.8 and C.9 show an overall increase of unemployment rates, whereas inflation decreased. The highest unemployment rates can be found in Spain and Ireland. Switzerland, Austria and Norway are the countries with the lowest unemployment rates. The highest inflation is found in Portugal, Spain and Greece, which restored democracy in the 1970s (see Table C.9). The high inflation rates can be connected to the political and economic transitions that took place in these countries. Germany, Switzerland, Austria and the Netherlands have the lowest inflation rates.

In Tables C.6 to C.12 means are given for four clusters, which were discussed in Chapter 4 (Table 4.1): (4) consensus and corporatist, (3) consensus or corporatist, (2) non-corporatist and non-consensus democratic and (1) majoritarian and pluralist countries. The mean scores for these categories in four time periods are visualised in Figure 5.1.

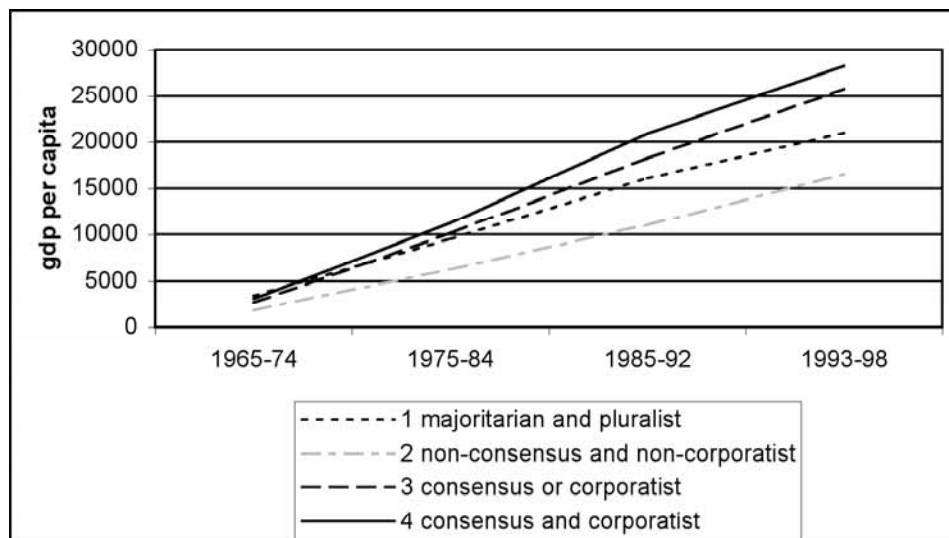
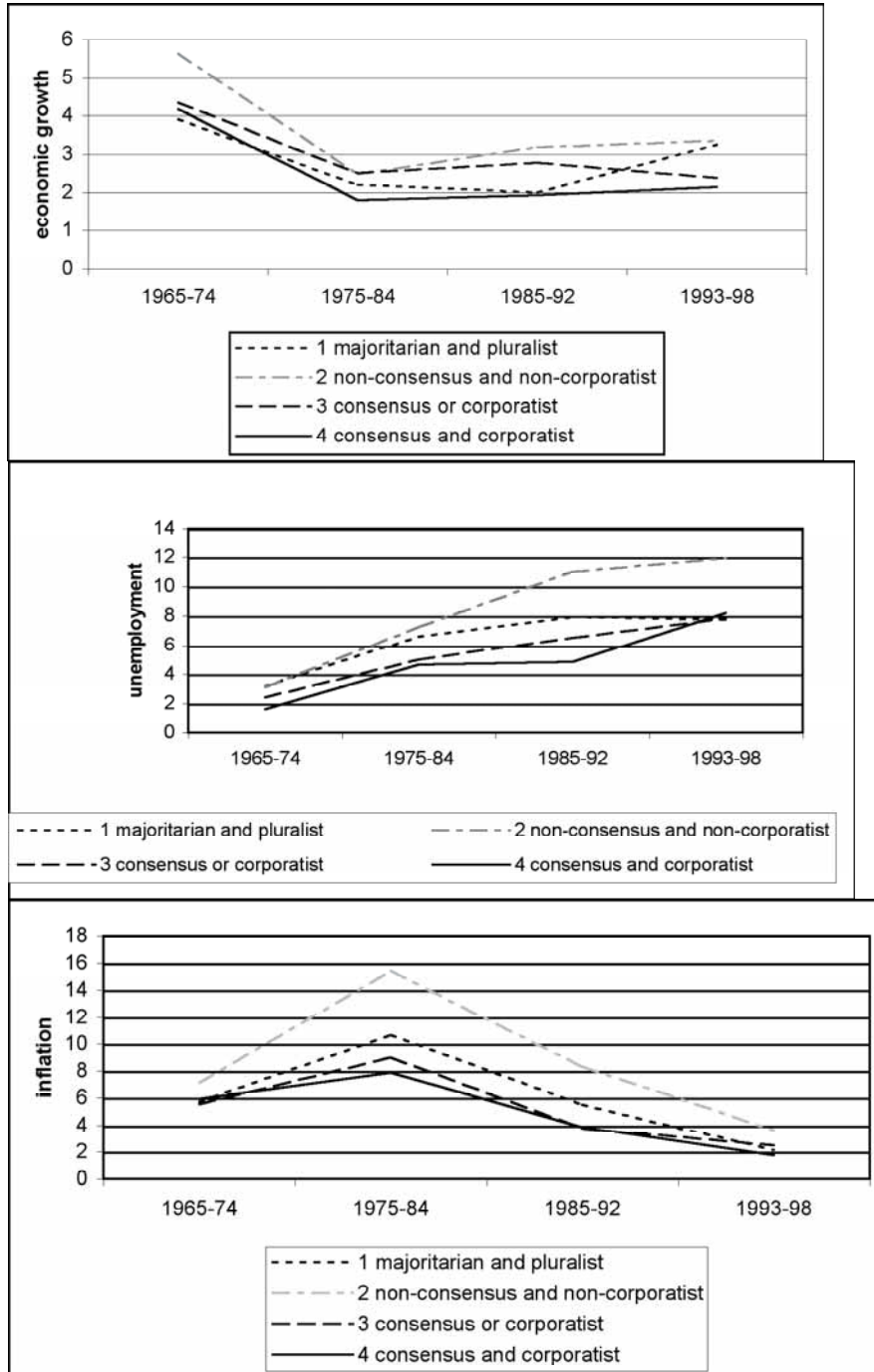


Figure 5.1 Socio-economic indicators per category

Sources: GDP per capita (in constant us dollars) from Comparative Political Data Set (Armingeon, Beyeler & Menegale 2000).

figure 5.1 continued



Sources: Economic growth (annual change of real GDP) from Comparative Political Data Set (Armington, Beyeler & Menegale 2000); standardised unemployment and inflation (consumer price index) OECD Economic Outlook, various years.

The first graph in Figure 5.1 shows that clusters 4 and 3 (i.e. countries with both consensus democracy and corporatism or with one of these) have the highest levels of GDP per capita. Cluster 2 (non-corporatist and non-consensus) has the highest economic growth. Cluster 2 also has the highest levels of both unemployment and inflation. The countries in cluster 4 have lower levels of both unemployment and inflation than the other groups. From Figure 5.1 it can be concluded that cluster 2 performs worst in terms of GDP per capita, unemployment and inflation, but is doing best in average economic growth. This last result might be an indication that this group of countries is catching up. Countries in cluster 4 perform better on unemployment, inflation and GDP per capita, but have lower levels of economic growth than the other groups. In general, this means that the combination of consensus democracy and corporatism (cluster 4) leads to a performance that is better than for cluster 2 and at least equally good as or even better than cluster 1 (majoritarian and pluralist).

Instead of taking some separate indicators of performance, a composite index of performance can be constructed. A frequently used one is the misery index – or Okun index - which is the sum of the levels of inflation and unemployment. Table C.10 (Appendix C) presents the scores for this misery index for twenty countries. The highest scores on the misery index can be found in Spain, Portugal and Greece. Other countries with high scores on the misery index are Ireland and Italy. Best performers according to this index are Switzerland, Austria and Germany. However, in some countries the misery index has changed considerably.

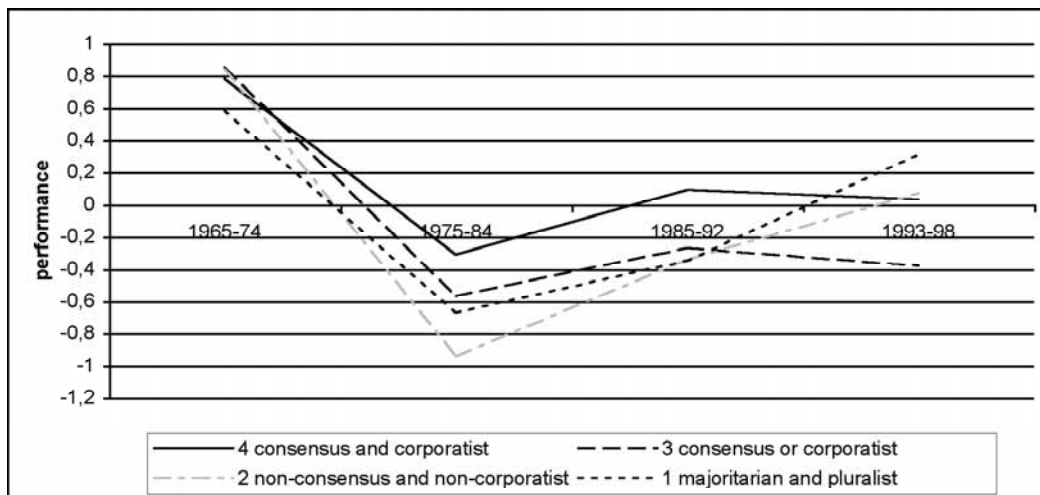


Figure 5.2 Performance index by category

Sources: Comparative Political Data Set (Armingeon, Beyeler & Menegale 2000); OECD Economic Outlook, various years; own calculations.

An alternative measure of performance takes the level of economic growth into account as well. Performance can be calculated as economic growth minus inflation minus unemployment³. Standardised scores of this performance index are presented in Table C.11 (Appendix C) and Figure 5.2. According to the performance index Spain, Greece and Italy perform worst, while Austria, Norway and Switzerland perform best.

If we look at the means of both indexes for the four categories, it confirms the picture that the combined model of corporatism and consensus democracy has a slightly better performance than the others, but this advantage disappeared in the 1990s. The worst performance is found in the non-corporatist and non-consensus democratic category.

The graphs in Figure 5.1 and 5.2 do not only indicate the cross-national patterns, but show the dynamic dimension as well. GDP per capita increases in all four categories and the differences between the clusters are increasing as well. This indicates a diverging pattern in terms of GDP per capita. Economic growth was highest in all four categories in the first period, 1965-74. After the first oil shock of 1974 economic growth declined. In the periods after 1974 average growth for these categories stabilised between 2 and 3% a year. Unemployment increased in all clusters, although differences in growth of unemployment can be seen for these categories. Unemployment increased strongest for the non-corporatist and non-consensus democratic cluster, while the other clusters stabilised around an unemployment rate of 8% in the last period. An interesting result is that unemployment in the consensus and corporatist cluster increased later than in the other clusters. This shows why studies published in the 1980s were still positive about the impact of corporatism on unemployment. This positive effect of corporatism disappeared in the 1990s. Inflation shows an interesting pattern of rise and decline. Inflation was highest for all categories between 1975 and 1984, with a record for the non-corporatist and non-consensus democratic category of 15%. After this period, inflation decreased for all categories. Combined with rising unemployment rates, in the same period 1975-84, these countries coped with a serious stagflation crisis.

Although Figures 5.1 and 5.2 give a general overview of the cross-national and diachronic patterns, it is only a rough indication of the empirical relationship between institutional variables and several macro-economic variables. Table 5.2 shows bivariate correlation coefficients between institutional variables and performance indicators. Again these results are rough, but they are helpful in comparing them with results found in other studies and in looking at developments through time.

Table 5.2 Correlation coefficients between institutional and socio-economic variables

Correlations	Economic growth				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	0.12	-0.25	-0.12	-0.28	-0.26
corporatism	-0.02	-0.12	-0.03	-0.17	-0.06
	GDP per capita				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.06	0.35	0.47**	0.44*	0.45**
corporatism	-0.25	-0.03	0.05	0.21	0.11
	Unemployment rate				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.36	-0.20	-0.39*	-0.11	-0.33
corporatism	-0.43*	-0.35	-0.20	0.13	-0.28
	social expenditures				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	0.27	0.33	0.41*	0.48**	0.37
corporatism	0.52*	0.49*	0.54**	0.72**	0.55**
	Inflation				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.01	-0.36	-0.25	-0.15	-0.31
corporatism	0.11	-0.04	-0.03	0.01	-0.05
	Misery index				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	-0.30	-0.36	-0.45**	-0.15	-0.39*
corporatism	-0.30	-0.19	-0.16	0.12	-0.20
	Performance index				
	1965-74	1975-84	1985-92	1993-98	1965-98
consensus democracy	0.27	0.30	0.36	-0.05	0.31
corporatism	0.18	0.17	0.09	-0.17	0.18

Significance * 10% ** 5%

Correlation coefficients are calculated over averages for each country for each period; number of cases is 20, except for 1965-74, n = 17 (Greece, Spain and Portugal are excluded).

Sources: Economic growth (annual change of real GDP) and GDP per capita in constant US Dollars (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000); unemployment: standardized unemployment rates; Inflation: consumer price index (OECD Economic outlook, various years).

Misery index = unemployment + inflation (own calculations)

Performance index = economic growth – unemployment - inflation (own calculations)

In general, the correlation coefficients between the institutional variables and economic variables in Table 5.2 are weak, with the exception of social expenditures. Corporatism has a significant positive effect on social expenditures, that increases through time. Consensus democracy also has an increasing positive effect, but not as strong.

The other correlations are much weaker and only significant in a few cases. Corporatism is very weakly to not related to the levels of the GDP per capita and economic growth. Both consensus democracy and corporatism have a slight lowering impact on unemployment levels, but this effect disappeared in the 1990s. Consensus democracy has a slight lowering effect on inflation rates, while there is almost no relationship between corporatism and inflation. The impact of consensus democracy on GDP per capita, inflation, misery index and performance index is stronger than that of corporatism. For these performance indicators, the combined effect of corporatism and consensus democracy is slightly stronger than the impact of the separate indicators. The fact that Lijphart (1999) includes corporatism as an indicator of consensus democracy explains his optimism about the relationship he found. It seems that Anderson (2001) is right in his critique on Lijphart that his index of consensus democracy is not accurate because it contains factors that do not belong to the institutional arrangements of consensus democracy. The indexes used in this chapter are clearer and enable an analysis of the different institutions of corporatism and consensus democracy without mixing them. This means that not only on theoretical grounds consensus democracy and corporatism must be separated (as discussed in Chapter 4), empirically these institutions seem to have different effects on socio-economic performance.

The conclusion from the bivariate correlations is that the impact of the institutional variables on some macro-economic performance indicators generally is hardly significant. Corporatism and consensus democracy have a modest lowering effect on unemployment and inflation rates and have a weak positive relation to GDP per capita and economic growth, which is not constant through time. The lowering effect of corporatism on unemployment clearly declined through time. Corporatism and to a lesser extent consensus democracy seem to matter for social policy. These institutions are related to more social expenditures as a percentage of GDP.

Compared with other results, such as Schmidt (1982); Crepaz (1992; 1998); Lijphart (1999) the results of Table 5.2 are considerably weaker. This can have several reasons. These studies did not analyse exactly the same countries for the same time periods. Moreover, in Table 5.2 several time periods are analysed separately. These results indicate that, for example, corporatism had an impact on unemployment and inflation in the past, but this effect disappeared altogether.

After the presentation of mean scores and bivariate correlations, several models will be tested in multivariate regressions. The multivariate models measure the extent to which there is a combined effect of corporatism and consensus democracy and these effects can be controlled for other factors. The main goal of empirical testing is to find the impact of institutions, not the level and changes of the

performance indicators as such. Finding the best fitting model is balancing between a model that is parsimonious on the one hand and a model containing all relevant factors on the other hand. Tables 5.3 to 5.8 present several models of the impact of institutions on performance. These models are calculated for twenty countries and the averages for three time periods (1975-84, 1985-92 and 1993-98). The first period, 1965-74, is not included in the analysis, because there are no scores for the institutional models in this period for Greece, Spain and Portugal are available. Using three time periods increases the number of cases to 60 instead of 20, but it does not lead to serious problems of autocorrelation, because of the limited time span. A second problem that may occur is multicollinearity, which means that the independent variables are highly correlated.⁴

With three periods and twenty countries there is variation through time and across countries. The time component is very limited, and the models are not really pooled time series. Using annual scores between 1975 and 1998, increases the number of time points, but lead to replication of some of the variables, in particular the corporatism scores which are measured for the periods 1975-84, 1985-92 and 1993-98. Therefore, variation over three time periods and twenty countries is examined.

To examine if variation over time or across nations is highest, an ANOVA⁵ is calculated for each of the performance indicators. Variation over time is greater than variation across nations for inflation (consumer price index) and GDP per capita (in constant US Dollars). Variation across nations is greater than over time for unemployment, economic growth (annual change of real GDP), misery index (unemployment and inflation), performance index and social expenditures. This means that the time dimension is dominant for inflation and GDP per capita and that differences between countries are most important for the other performance indicators.

For each performance indicator, several regression models are tested. The first model presented includes the institutional variables and contextual variables that yield significant coefficients. The other models are one or more parsimonious models and a model with only institutional variables. The first analysed performance indicator is inflation, which is shown in Table 5.3.

Table 5.3 Regression models of the impact on inflation (Consumer price index)

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	-0.533 (0.409)	-0.103	-1.489 (0.780)	-0.287*		
corporatism	-0.656 (0.410)	-0.128	0.671 (0.769)	0.131	-0.947 (0.346)	-0.185**
openness of the economy	-1.970 (0.156)	-0.864***			-2.007 (0.154)	-0.880***
Adjusted R ²	0.74		0.06		0.74	
degrees of freedom	56		57		57	

Dependent variable: inflation (consumer price index)

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***p< 0.001 ** p<0.01 * p<0.1

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Table 2.7; corporatism Table 3.4; Openness economy: index for the financial openness of an economy⁶ (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000)

In Table 5.3 three models are tested that can have an impact on inflation, measured by the consumer price index. The first model takes consensus democracy, corporatism and openness of the economy (measured by an additive index of restrictions on payments and receipts of goods and invisibles, restrictions on payments and receipts of capital and legal international agreements that constrain a nation's ability to restrict exchange and capital flows (Armingeon, Beyeler & Menegale 2000)) as independent variables. For this model, there is no strong impact of institutions. Openness of the economy is significantly related to lower inflation rates. Although the impact of corporatism is not significant, in this model corporatism together with openness lowers significantly the inflation level. This seems in line with arguments made by Katzenstein (1985) that small open countries use corporatism as a strategy to cope with international competition. When openness of the economy is removed, as in model 2, the explained variance, as expressed by R², is very low and consensus democracy has a significantly but very small lowering impact on inflation. When consensus democracy is omitted, as in model 3, corporatism and openness of the economy together have a mitigating impact on inflation.

Table 5.4 Regression models of the impact on unemployment

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	-0.242 (0.549)	-0.060	-0.814 (0.612)	-0.202		
corporatism	-0.745 (0.524)	-0.188	-0.008 (0.604)	-0.002		
central bank independence	-1.191 (0.470)	-0.295*			-1.246 (0.444)	-0.308***
EU membership	3.390 (0.883)	0.497***			3.636 (0.881)	0.453***
Adjusted R ²	0.32		0.01		0.29	
degrees of freedom	55		57		57	

Dependent variable: unemployment rate.

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***p< 0.001 ** p<0.01 * p<0.1

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Table 2.7; corporatism Table 3.4; Central bank Independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60)⁷.

Table 5.4 presents three regression models on unemployment. Institutions have no significant impact. In the first model, central bank independence has a lowering effect on unemployment, while EU countries have higher unemployment rates. When the institutional variables are removed, as in model 3, the effect of the control variables remains the same. This means that both consensus democracy and corporatism have no impact on unemployment. This result holds when controlled for other factors and only these institutions are examined. Institutions do not seem to matter with regard to unemployment. The signs of the coefficient are in the expected direction, negative, but they are very weak and not significant.

Table 5.5 Regression models of the impact on misery index

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	-0.068 (0.516)	-0.011	-2.303 (0.894)	-0.377*		
corporatism	-0.737(0.587)	-0.122	0.663 (0.882)	-0.110		
central bank independence	-1.013 (0.480)	-0.165*			-1.009 (0.466)	-0.165*
work days lost (log)	2.283 (0,523)	0.363***			2.716 (0.428)	0.432***
EU membership	4.173 (0.891)	0.343***			3.627 (0.828)	0.298***
openness of the economy	-1.636 (0.218)	-0.609***			-1.510 (0.204)	-0.562***
Adjusted R ²	0.76		0.08		0.76	
degrees of freedom	53		57		55	

Dependent variable: misery index (unemployment and inflation).

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***p< 0.001 ** p<0.01 * p<0.1

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Table 2.7; corporatism Table 3.4; Central bank independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60); log of work days lost due to strike Comparative Political Data Set (2000); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Table 5.5 shows regression models of the misery index, which is the combination of inflation and unemployment. Consensus democracy has a lowering effect on the misery index in model 2, but when control variables are added this effect disappears as in model 1. Central bank independence has a very weak, significant lowering effect on the misery index. Open economies are associated with a lower degree of misery and (the logarithm of) the number of work days lost due to strike and EU membership is associated with a higher degree of misery. Again, institutions are not actually related to the misery index. This is in line with the finding that institutions are not related with unemployment.

Table 5.6 Regression models of the impact on performance

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	0.014 (0.103)	0.018	0.181 (0.116)	0.238		
corporatism	0.115 (0.101)	0.154	-0.088 (0.114)	-0.118		
central bank independence	0.237 (0.099)	0.311*			0.258 (0.093)	0.337**
EU membership	-0.601 (0.179)	-0.396***			-0.527 (0.171)	-0.348**
openness of the economy	0.115 (0.044)	0.343*			0.097 (0.042)	0.289*
Adjusted R ²	0.33		0.04		0.33	
degrees of freedom	54		57		56	

Dependent variable: performance index (economic growth minus unemployment minus inflation).

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients

significance (two-tailed) ***p< 0.001 ** p<0.01 * p<0.1

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Table 2.7; corporatism Table 3.4; Central bank independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Table 5.6 shows no significant impact of institutions on the overall performance index. Central bank independence is related to better socio-economic performance. According to the first and third model independent central banks and open economies have higher performance and EU members have lower performance levels, but the effects are not strong.

The positive conclusions of Lijphart (1999) and Crepaz (1996) about the impact of consensus democracy are not reflected in the findings presented here. It becomes clear that one of the indicators that are part of Lijphart's operationalisation of consensus democracy, central bank independence, has a stronger effect than the index of consensus democracy. This means that using a broad operationalisation as done by Lijphart (1999), that includes variables such as central bank independence, leads to conclusions that overestimate the positive effect of consensus democracy.

Table 5.7 Regression models GDP per capita (in 1000 constant US Dollars)

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	1.618 (0.726)	0.200*	3.146 (1.179)	0.390**		
corporatism	1.539 (0.708)	0.193*	-1.077 (1.163)	-0.135		
industrial employment	-0.891 (0.132)	-0.557***			-0.785 (0.150)	-0.491***
central bank independence	2.731 (0.757)	0.337***			3.144 (0.832)	0.388***
openness of the economy	1.412 (0.310)	0.398***			1.290 (0.358)	0.363***
Adjusted R ²	0.70		0.08		0.60	
degrees of freedom	54		57		56	

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients
significance (two-tailed) ***p< 0.001 ** p<0.01 * p<0.1

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Table 2.7; corporatism Table 3.4; industrial employment: employment in industry as % of total employment(OECD Labour Force Statistics 2000); Central bank independence: sum of the z-scores of central bank independence of Franzese & Hall (2000: 198) and Busch (1993: 60); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Consensus democracy is associated with higher GDP per capita and this effect is smaller when controlled for other factors. The impact of corporatism on GDP per capita is very small. Openness of the economy and central bank independence are much more important. Industrial employment is associated with lower GDP per capita. Countries with relatively more industrial employment did not develop economically as strong as those countries with a larger service sector.

Table 5.8 Regression models of the impact on social expenditures

	model 1		model 2		model 3	
	b (s.e.)	beta	b (s.e.)	beta	b (s.e.)	beta
consensus democracy	0.838 (0.613)	0.130	0.969 (0.831)	0.150		
corporatism	3.128 (0.641)	0.492***	2.950 (0.820)	0.464***	3.650 (0.518)	0.574***
federalism	-2.208 (0.630)	-0.309***			-1.947 (0.604)	-0.272**
openness of the economy	1.801 (0.230)	0.635***			1.833 (0.230)	0.646***
Adjusted R ²	0.66		0.29		0.66	
degrees of freedom	55		57		56	

Dependent variable: social expenditures (as % of GDP).

b: unstandardised coefficients; s.e.: standard errors of b; beta: standardised coefficients
significance (two-tailed) ***p< 0.001 ** p<0.01 * p<0.1

number of cases is 60 (20 countries and 3 time periods: 1975-84, 1985-92 and 1993-98)

Sources: consensus democracy Table 2.7; corporatism Table 3.4; federalism 1=unitary, 3=federal (Lane & Ersson 1994a; own estimations added); openness economy: index for the financial openness of an economy (Comparative Political Data Set, provided by Armingeon, Beyeler & Menegale 2000).

Table 5.8 shows the impact on social expenditures (as % of GDP). This is the first and only performance indicator that shows a significant positive impact of corporatism that lasts if control variables are added. Corporatist countries have a larger welfare state. This effect is controlled for federalism and open economy. In federal countries, central government is less dominant and there can be more competition between states to moderate taxes. This contributes to smaller welfare states in federal countries (Pierson 1995). Open economies have a larger welfare state. Open economies are more vulnerable to international factors and can therefore develop a stronger welfare state to protect workers against unexpected risks. Moreover, as shown in Table 5.7, countries with open economies are richer and this can make it easier for these countries to develop larger welfare states.

5.5 Conclusions

This chapter has examined several hypotheses of the impact of institutions on socio-economic performance. GDP per capita is somewhat higher in consensus democracies and the effect of corporatism is smaller. Non-corporatist and non-consensus democratic countries have more economic growth (see Figure 5.1). Corporatism and consensus democracy do not contribute to more economic growth (see Table 5.2). There is also ample ground that corporatism and consensus democracy contribute to lower inflation and lower unemployment. There is a weak lowering effect of these institutions, but this effect disappeared in the 1990s (see Figure 5.1, Table 5.2). Tables 5.3 and 5.4 show that contextual variables are more important than the institutional variables. Consensus democracy had a lowering effect on misery, but this effect disappeared in the 1990s (Table 5.2) and when controlled for other factors (Table 5.5). The hypothesis that corporatism is associated with higher social expenditures is confirmed, but there is no such effect of consensus democracy.

Lijphart (1999) and Crepaz (1996) predict a positive effect of consensus democracy on performance. Their positive effect is not confirmed by the analyses of this chapter. Central bank independence, one of the indicators of consensus democracy in Lijphart's operationalisation, seems to have a positive effect on several performance indicators (see Tables 5.4 to 5.7). The impact of consensus democracy on these indicators is lower and not significant. The conclusions drawn by Lijphart (1999) and Crepaz (1996) are incorrect, since they use a broad operationalisation of consensus democracy that includes variables that have an effect on their own, such as corporatism and central bank independence. Consensus democracy is

related to lower unemployment, but this impact is not significant (see Table 5.4). Consensus democracy is connected with lower misery, but this effect disappears when controlled for other factors (see Table 5.5).

Several authors, such as Schmidt (1982) and Cameron (1984) among others, found a positive effect of corporatism on performance. Corporatism may have had a positive effect in the past, but this cannot be confirmed for the 1990s. The lowering effect of corporatism on unemployment has become weaker (see Table 5.2). This indicates that the effect of corporatist institutions has become smaller and corporatism has become less important. This confirms the argument made by Therborn (1987) and Flanagan (1999) that the impact of corporatism has declined. The graphs in Figure 5.1 show that countries in the between categories performed worse than the countries at the extremes. This confirms in part Calmfors & Driffill's hypothesis (1988) of a hump-shaped relation.

Based on this chapter, it can be concluded that neither corporatism nor consensus democracy has a strong positive effect on socio-economic performance. In several occasions these institutions do matter if other factors are added and sometimes only control variables have a significant effect. There is one exception: corporatism has a positive effect on social expenditures, which lasts when control variables are omitted. This confirms the idea that national corporatist institutions contribute to larger welfare states to protect against the negative impacts of economic globalisation.

The effects of consensus democracy and corporatism on performance disappear when controlled for other factors, except for inflation and social expenditures. Corporatism contributes to lower inflation in open economies. In non-federal countries and open economies, corporatism is associated with higher social expenditures. In all other models examined here, the effect of institutions disappears when other factors are taken into account. This does not mean that in these other cases institutions are totally irrelevant. Institutions of consensus democracy and corporatism do not significantly lead to worse performance.

Overall, consensus democracy and corporatism do not directly matter. There is a logic to differences in welfare states. The hypotheses that were formulated in Table 5.1 were largely confirmed. The neutral effects were indeed found, indicating that the institutions of consensus democracy and corporatism do not lead to worse socio-economic performance. The positive effects of corporatism that were found were weak, except for social expenditures, which remained positive without other factors taking into account. Corporatism and consensus democracy seem to have an indirect effect on policy performance. Stronger claims can not be confirmed on the basis of this analysis.

Notes

¹ The results are possibly affected by the methodology used by Woldendorp (1997), for he only compares countries with a considerable level of neo-corporatism. He did not include countries with a lower degree of corporatism in his analysis.

² Note that the median voter is not necessarily located in the political centre. This depends on the distribution of the policy positions of the voters. In a homogeneous electorate with normally distributed preferences, the median voter is located near the centre.

³ Standardised scores are used.

⁴ Multicollinearity is tested by examining the Variance Inflation Factor (VIF). In none of the regressions reported here, tolerance is below 0.45. Tolerance = $1/VIF$. For critical values of tolerance see Pennings, Keman & Kleinnijenhuis (1999: 199-200).

⁵ Analysis of Variance (see Pennings, Keman & Kleinnijenhuis 1999: 141-144).

⁶ This index is measured by restrictions on payments and receipts of goods and invisibles, restrictions on payments and receipts of capital and legal international agreements that constrain a nation's ability to restrict exchange and capital flows (Armingeon, Beyeler & Menegale 2000).

⁷ For the CBI index, scores from two different authors are used.

PART III

ANALYSIS OF THE CASES

The institutional dynamics of consensus and conflict

6 SELECTION OF THE CASES

6.1 Introduction

Chapter 5 has discussed the impact of institutional arrangements on socio-economic policy-making for twenty democracies. The main finding has been that consensus democracy and corporatism do not strongly contribute to better performance. Corporatism has some positive effects and is related to more generous social policy. Consensus democracy is not related to better performance and has no impact on social expenditures. While the direct effects of corporatism and consensus democracy on performance are rather weak, they are not related to worse socio-economic performance than pluralism and majoritarianism.

The obvious caveat for comparative analysis is that the indicators used measure mainly formal institutions. To unravel the underlying institutional mechanisms, including informal institutions, and the role of actors, four cases are analysed in more detail. In Chapters 4 and 5 we found and examined four clusters of countries. From each of these one case is selected. The critical case method is suggested by Castles (1988: 217-219) for comparative public policy analysis. This method focuses on 'the identification of cases critical for theory construction and/or hypothesis testing' (p. 217). Four cases are examined in more detail: the Netherlands, New Zealand, Portugal and Sweden. The advantage of case analysis is that more specific information can be used. Our goal is a systematic analysis of cases that are exemplary for the clustered findings in the comparative analysis of the complete set of countries.

Most other studies to the impact of institutions on performance are either done by quantitative comparison or by means of a few single case studies. The main disadvantage is that the analysis is either at a macro level, thus aggregated or in detail without reference to general benchmarks. This study combines comparison of twenty democracies and four case analyses. The results found by both approaches can be compared and confronted. This research design adds to new insights in understanding the linkages between the role of actors and institutional development in making policy choices and performance.

This chapter allows stepping from cross-national and cross-time quantitative comparisons to cross-time case analysis. Critical cases analysis helps further to address the research question: what is the relation between consensus democracy and corporatism and what is their impact on performance? Recall the theoretical framework in Chapter 1. Therefore, it is necessary to focus on the relation between actors and preferences within their institutional context. Analysing cases makes it possible to go beyond the general conclusions drawn in Chapters 4 and 5.

The selection is based on the four different clusters that were found characterising the combined presence of consensus democracy and corporatism. From each cluster one case is selected. These cases can reveal how the relation between actors and institutions affects performance in each of these clusters in a different way. These cases give the opportunity to elaborate on the relation between actors and institutions as put forward in Chapter 1, i.e. how the actors, preferences and the rules are operational in each system.

6.2 Comparative patterns

Chapter 5 has analysed the impact of consensus democracy and corporatism on socio-economic performance by means of quantitative statistical comparisons. These findings are used for further case analysis. Some results were in accordance with the formulated hypotheses, while others were not.

Unemployment

Unemployment increased in all of the four clusters through time. Growth of unemployment was highest in the non-corporatist and non-consensus cluster of countries, while the cluster of consensual democracies and corporatist countries remained among the lowest. Bivariate correlation coefficients show that unemployment is slightly lower in consensus democracies and corporatist countries. In multivariate regressions there is no significant effect of consensus democracy and corporatism on unemployment. EU membership has an increasing effect on unemployment and central bank independence leads to lower unemployment. This effect is corroborated by other studies (Iversen 1999; Franzese & Hall 2000)

Inflation

The late 1970s and early 1980s showed a peak of inflation rates. After 1984, inflation rates decreased drastically. In all these periods, inflation remained highest in the non-corporatist and non-consensus cluster and lowest in the consensus and corporatism cluster. Consensus democracy and corporatism have only a very weak lowering effect on inflation. Lower inflation can be found more in open economies.

GDP per capita/economic growth

All four clusters show an increase of GDP per capita (in constant Dollars), with the cluster of consensual and corporatist countries having highest increase of GDP per capita and lowest increase in the non-corporatist and non-consensus cluster.

Economic growth (annual change of real GDP) was highest in the non-corporatist and non-consensus cluster and lowest in the consensus and corporatist cluster. Economic growth peaked for all clusters in the period of 1965-1974.

On the basis of bivariate correlations, consensus democracy is moderately connected to higher levels of GDP per capita after 1975, while no effect of corporatism is found. Consensus democracy and corporatism are not related to higher economic growth and consensus democracy has a moderate positive effect on GDP per capita.

Misery/Performance-index

Corporatism is associated with a lower degree of the misery index, but this effect disappears when controlled for other factors. Consensus democracies and corporatist countries are, not significantly, positive related with the performance index until the 1990s. After around 1992, these positive effects disappeared. In all four clusters performance peaked in the first (1965-74) and last period (1993-98). In between, consensus democracies and corporatist countries outperformed the other clusters. Multivariate regression shows no significant impact of consensus democracy and corporatism on the performance index.

Social expenditures

Corporatism and to lesser extent consensus democracy are related to higher social expenditures and this effect increased over time. The positive effect of corporatism on social expenditures remains when controlled for other factors.

So far we can conclude that:

- 1) consensus democracy and corporatism do not function as configurations that can fully and directly account for levels and changes of performance. Elements of these institutions do matter in several cases, but not the entire concept of either consensus democracy or corporatism and not at the same time. The case analysis is carried out to find out which specific institutional elements, including informal ones, are relevant for socio-economic policy and performance;
- 2) consensus democracy and corporatism have become less related through time to socio-economic performance. The case analysis must shed light on how and to what extent actors changed their strategies and influenced the working of formal and informal institutions;
- 3) performances differ across clusters, so the 'critical case method' can be used as a helpful analytical tool.

In what way do institutions matter?

Corporatist scholars assume that cooperation and consensus between trade unions and employers' organisations may well lead to wage moderation as a trade-off for keeping social security rights. Wage moderation is expected to keep production costs low on the international market. This should lead to the creation of jobs and to employment. This stimulates economic growth and combined with low inflation, caused by wage moderation, socio-economic performance can be expected to be better in corporatist countries. On the cross-national level this appeared not to be true, how is it at the case level?

The benefit of consensus democracy is said to be a broadly supported government and absence of strong opposition undermining the political system. As a consequence macroeconomic policy can be more successful. The question arises whether the institutions of consensus democracy can be related to socio-economic performance. Consensual institutions are primarily developed to secure the political system and possibly lead to better political performance.

The case analysis focuses on mechanisms how corporatism and consensus democracy contribute to a different and possibly better socio-economic performance. The questions addressed in the analysis are: under what conditions do consensus corporatism and corporatism contribute to better performance and when do they not? In other words: when does it help and when does it not? If institutions are changed and adapted, what is the role of the actors in this process? In short, how can we link actors, preferences, institutions and performance?

The theoretical framework of Chapter 1 (Section 1.6) is used as a guideline to analyse the four cases. It focuses on two phases, two levels and two arenas of socio-economic problem-solving. The two phases express the two sides of the link between actors, institutions and preferences. The two levels refer to the relations among voters, workers and firms at the lower level and among parties, governments and interest groups at the higher level. The two arenas are consensus democracy and corporatism.

The four countries are analysed as comparative cases and not as case studies in the traditional sense. Not the cases are our central focus, but the extent to which the theoretical arguments and empirical findings from the cross-national and cluster analysis can be confirmed or rejected when focusing on the actors' behaviour and adjustment of formal and informal institutions. Section 6.3 explains which four cases are selected.

6.3 The method of selection

When examining the independent variables - consensus democracy and corporatism - four categories can be distinguished, as illustrated in Table 4.1 (in Chapter 4). The first cluster consists of majoritarian and pluralist countries. The second cluster is a non-corporatist and non-consensus group of countries that do not belong to either the consensus vis-à-vis majoritarian democracies or to corporatism vis-à-vis pluralism. The third cluster consists of countries that belongs either to consensus democracy or corporatism. The fourth cluster consists of countries characterised by both consensus democracy and corporatism.

Table 6.1 shows the changes in the misery index and performance indexes as discussed in Chapter 5. The first number is the difference between the levels in the period 1975-84 and the period 1965-74. The second number is the difference between the levels of the period 1985-92 and period 1975-84 and the third between the period 1993-98 and the period 1985-92. Table 6.1 shows only the four selected cases. For other countries, see Table C.13 (Appendix C).

Table 6.1 Changes in misery and performance index

Period	change misery index			change performance index		
	65-74/ 75-84	75-84/ 85-92	85-92/ 93-98	65-74/ 75-84	75-84/ 85-92	85-92/ 93-98
4) consensus and corporatist						
Sweden	4.68	-3.22	2.24	-0.95	0.26	-0.07
<i>Mean of cluster</i>	4.95	-3.79	1.25	-1.09	0.40	-0.07
3) consensus or corporatist						
Netherlands	5.13	-4.09	-0.34	-1.31	0.72	0.03
<i>Mean of cluster</i>	7.81	-2.16	-0.99	-1.43	0.30	-0.11
2) non-corporatist and non-consensus						
Portugal	18.77	-12.06	-7.51	-2.91	1.60	0.33
<i>Mean of cluster</i>	11.27	-4.40	-3.03	-1.78	0.60	0.41
1) majoritarian and pluralist						
New Zealand	9.24	-0.96	-5.62	-1.65	-0.12	1.26
<i>Mean of cluster</i>	8.34	-3.82	-3.51	-1.25	0.32	0.67

Sources: Tables C.10 & C.11 (Appendix C), own calculations.
Other countries see Table C.13 (Appendix C)

Between period 1 (1965-74) and 2 (1975-84) in the consensus and corporatist cluster the misery index increased less of all clusters and performance decreased less. Between period 2 (1975-84) and 3 (1985-92) the non-corporatist and non-consensus democratic cluster saw strongest decrease of the misery index. Between period 3 (1985-92) and 4 (1993-98), the majoritarian and pluralist cluster showed the strongest increase of the performance index.

These four clusters show different institutional patterns with different effects on performance. One country is selected from each institutional cluster. The next step is determining which country to select from each cluster. Countries must have by and large the same development in misery and performance as the other countries in the cluster. The final argument to select a country from a cluster is institutional change.

Sweden has the smallest deviation from the general pattern within cluster 4. Sweden is an interesting case, because it served as a (neo-) corporatist model until the 1980s, before this model changed in the 1990s. Sweden is selected because of its change in corporatist institutions. Performance in the Netherlands resembles the average development in cluster 3. The Netherlands has shown the opposite pattern from that of Sweden. During the 1990s the performance of the Netherlands improved and there has been a debate whether or not the Netherlands was a miracle or model (Visser & Hemerijk 1997; Delsen 2000). Therefore, the Netherlands is selected for a further analysis. From cluster 2, Portugal (and also Ireland) have about the same changes as the cluster-average. Portugal is selected because of its obvious institutional change of the transition towards democracy in the 1970s and the consolidation of democracy during the 1980s. New Zealand resembles average development in cluster 1. New Zealand is interesting for its institutional change. The electoral system has changed from first-past-the-post to mixed member proportional system. Hence, it has developed from the most 'typical' Westminster-model to a less majoritarian type of parliamentary democracy.

6.4 The four selected cases

Looking at these four cases, they have similarities as well as differences. First of all, these countries are comparatively small in terms of number of inhabitants. New Zealand is the smallest country, with 3.8 million inhabitants. The Netherlands is largest with 15.7 million inhabitants. Sweden, with 8.9 million, and Portugal, with 10 million, are in between. In addition, given their size, they are dependent on the world market.

Sweden has the highest scores on consensus democracy and corporatism, whereas New Zealand belonged most typically to majoritarian democracy and pluralism. Institutions in Sweden have been most stable. Portugal and New Zealand have experienced considerable institutional change. Formal institutions changed in the Netherlands in the system of corporatism, while change of Dutch consensus democracy was most apparent in the informal rules. It has moved away from consociationalism.

For a long time, these countries lacked a strong independent central bank. The Netherlands and Sweden have medium independent central banks, while central bank independence in New Zealand and Portugal rank among the lowest of all twenty countries. Autonomy of New Zealand's central bank increased by the Reserve Bank Act of 1989 (Kelsey 1995: 5). Since 1999 Portugal and the Netherlands participate in the Economic Monetary Union, while Sweden, although being an EU-member, did not join the EMU. New Zealand is obviously not a member of both organisations.

These four countries are interesting because of institutional developments that took place. By the end of the 1960s, consensus democracy was declared dead in the Netherlands, because of changes in the political landscape and the increasing polarisation. After an initial decline of consensus democracy in the 1970s, it turned out later that many traditions and informal rules had survived. Not only consensus democracy, but also corporatism had changed. In the 1970s relations between social partners and government appeared to have worsened. In the beginning of the 1980s, the impact of the economic crisis was so strong, that these actors were willing to make agreements about wage moderation, the so-called social pact of Wassenaar (1982). Whether this can be considered a turning point in Dutch industrial relations is discussed in Chapter 7.

Sweden has a long tradition of corporatism combined with a social democratic dominance in party government. Both factors lost their importance during the late 1980s and 1990s. The social democratic party lost government control in 1991 and thus the system of social partnership lost its prominent position. Sweden and the Netherlands make an interesting comparison since they both have a large welfare state, yet both countries travelled different routes to achieve the same result (Social democratic and Christian Democratic). Moreover, their industrial relations went through a contrasting development. Sweden changed its type of corporatism, while the Netherlands embraced a renewed cooperation between social partners and government. Finally, these countries are used as contrasting cases with regard to their socio-economic performance during the 1980s. For a long time the Swedish model of corporatism kept unemployment at a low level, while in the Netherlands the Dutch disease caused a combination of high unemployment, high welfare levels and high public debts. This appears to have been reversed in the 1990s, with worsening performance in Sweden and a 'miracle' of low unemployment in the Netherlands.

During its transition to democracy, Portugal has tried to find a way to cope with the relation between executive power and parliament and the way in which interest groups are involved in the political process. In the early years of the Salazar-regime in the 1930s attempts were made to develop a corporatist structure. But this

structure was vertical and top-down. After the Second World War, the importance of these structures declined. Although Salazar's successor Caetano tried to revitalise the corporatist structures, these have never been fully implemented (Magone 1997:111). In the first period after the 1974 revolution, the workers and employers were too far apart to be able to start a dialogue. From the mid-1980s, the first neo-corporatist structures were developed. Joining the EU has contributed significantly to the socio-economic development of Portugal.

New Zealand always represented the majoritarian-pluralist group of countries, but has some interesting deviating features. In the 1980s a radical neo-liberal policy was implemented and in the 1990s New Zealand's welfare state underwent considerable reforms. The change of the electoral system was a second remarkable development. In the 1990s, the disproportional electoral system of single member districts was replaced by the mixed member proportional system. In many respects, New Zealand underwent political, institutional and policy changes. For this reason, New Zealand completes this set of four interesting cases, which have experienced institutional change in one way or another.

6.5 Conclusions

This chapter explains how four cases are selected for examination in more detail. They all belong to one category and they all experience change. The first case analysis is the Netherlands, which has a strong tradition of consensus democracy and has some characteristics of corporatism. New Zealand is examined as a representative of the majoritarian and pluralist countries. Sweden has been strongly corporatist and has characteristics of consensus democracy. Portugal is taken as a representative from the cluster that does not belong to either side of the consensus versus majoritarian democracy and corporatism versus pluralism spectrum.

The case analysis contains the following elements. First of all, the institutional framework as well as institutional change is described. Second, the relevant actors and their preferences are analysed as well as their behaviour in the institutional context. Third, these interrelations are discussed with regard to changes in performance. The main ingredients in the analysis are how preferences drive actor's behaviour in changing institutions and performance and how – as a consequence – this affects their preference and power. In other words: how do actors cope with socio-economic problems and how do they manage to solve them. The framework of two phases of socio-economic problem-solving helps us to explain how institutions are shaped by actors to develop policies that contribute to better performance and how performance changes actors' strategies to change institutions, either formal or informal.

7 THE NETHERLANDS. FROM DISEASE TO MIRACLE?

7.1 Introduction

The Netherlands experienced some significant changes both on the dependent (the institutional structure) and the independent variables (socio-economic performance) of this study. First, the Netherlands changed from a strong pillarised political structure with consociational devices to overarching societal cleavages to a more polarised political system. Second, the Netherlands had corporatist institutions that declined through time. After World War II, the Socio-Economic Council¹ and the Foundation of Labour² and several other formal institutions were called into being to organise relations between labour, capital and government. This formal system of consultation lost its importance gradually during the 1960s and 1970s. In the 1990s the Kok government limited the legal status of the Socio-Economic Council (Koole & Daalder 2002: 36; van Waarden 2002: 58-59). The 1982 pact of Wassenaar is seen as the cause for a revival of (neo-) corporatism in the Netherlands. This chapter argues that the increase of the importance of corporatism in the Netherlands since 1982 is limited. Third, labour market and social policy drastically changed from the welfare without work situation of the 1980s to a combination of high labour participation, low unemployment and cutbacks in the welfare system in the 1990s³. The Netherlands showed a remarkable socio-economic improvement. This chapter argues that socio-economic recovery in the Netherlands is remarkable, but cannot be explained solely by the institutions of consensus democracy and corporatism.

The Dutch case helps to understand how actors deal with existing formal rules, how these rules are adjusted and how additional informal rules are created in order to secure political stability. There is a distinction between the rules for use and the rules in use (Ostrom 1990). The formal rules determine how decisions are made. Actors have the opportunity to adjust these rules or to construct additional informal rules that change how formal rules transform individual preferences into collective decisions (see Chapter 1). In the Netherlands both the rules for use and the rules in use have changed.

Since the 1960s, the consensual character of the Dutch system seemed to have declined. Mair (1994: 121) concludes that 'the Netherlands no longer enjoys the status of a highly consensual democracy'. The second area of interest is the development of corporatism. After the introduction of strong corporatist institutions in a formal sense after World War II, the degree of corporatism declined in the 1970s, but corporatist institutions did not disappear. This chapter analyses to what extent the rules of corporatism and consensus democracy have contributed to reform of the Dutch welfare state and the socio-economic success of the 1990s by focusing on the central actors.

The past decades, developments in the Dutch political economy received much attention (see Keman & Woldendorp 1985; Therborn 1986; Braun 1989; Hemerijck 1994; Woldendorp 1995; Visser & Hemerijck 1997; Delsen 2000; Hemerijck, Unger & Visser 2000; Becker 2003). Therborn (1986) states there was a Dutch disease in the late 1970s and the 1980s. The Netherlands experienced a long period of welfare without work, indicating a large and generous welfare state combined with high levels of labour force inactivity. Although the number of people dependent on social benefits increased, the need to cut the welfare state was limited, because the increasing costs of social security were covered by natural gas benefits and economic growth (Hemerijck, Unger & Visser 2000: 213). In the 1990s the Netherlands saw strong economic growth, growth of employment of which a substantial part part-time employment, mainly among women, and a reduction of unemployment. Visser & Hemerijck (1997) raised the question whether a miracle had occurred. They argue that three policy changes explain recovery of the Dutch economy in the 1990s: wage moderation, reform of the welfare state and an active labour market policy. Despite the question whether or not there was anything miraculous about the changes, the significance of the institutional and policy changes are undisputed. How did this Dutch metamorphosis come about?

7.2 Political system

The Dutch political-institutional structure can adequately be described in terms of consensus democracy and corporatism as used in this study. The pillarised structure of organisational life was restored after World War II. Although social democrats and others attempted to renew the Dutch party system, the denominational differences between parties continued to exist. During the post-war period attempts were made to restructure the system of policy concertation among organised interests. Formal consultation councils were founded to advise the Dutch government on socio-economic issues. Until 1970 the Dutch government employed a restrictive income policy. Government, trade unions and employers' organisations tried to prevent a return of the pre-war economic crisis by an active policy of wage moderation and planned economy. The combination of consociational devices and corporatist institutions existed until 1970 under the domination of Christian Democratic parties.

During the 1960s both institutional patterns changed. In the 1960s coordinated wage moderation still existed, but became increasingly difficult to maintain, because of shortness of supply of labour due to large economic growth. Combined with the low workers' organisation rate, wage pressure contributed to the disintegration of the corporatist system. Consociational institutional devices came under

pressure by the disappearing of traditional cleavages in society and the demand for democratisation and reform of the political system by new social movements. Consociational institutional practices, which were focused on overarching political, economic and social differences, were persistent. While the traditional divisions in society were fading away, institutions at the elite level appeared difficult to change. In the 1970s political parties on the left, such as the PvdA and Democrats 1966, tried to alter these institutions, but in coalition formation they still needed confessional parties of the political centre. Only in 1994 the confessional parties, since 1977 fused in the Christian Democratic party CDA, were no longer part of the coalition government (see Table 7.2). The new, so-called 'purple' coalition⁴ wanted to reform the role of interest groups. The role of formal consultation platforms was strongly limited. Competition of actors and the negotiation system changed dramatically. The next sections show how consensus democracy and corporatism gradually lost importance in the Netherlands and discuss to what extent the 1990s saw a revival of corporatism.

Following pluralist theory, the Netherlands as a political entity could not have existed (Dahl 1966). Between 1920 and 1970, Dutch society was strongly divided in social pillars. Along with that division the political parties represented the major subgroups – Catholics, Protestants, Social Democrats and Liberals. Divisions in society were reflected in the political system that became potentially unstable and was likely to disintegrate by political conflicts. The fact that the Dutch political system was stable can be explained by a specific set of institutional arrangements, which were the rules in use. Lijphart (1968) proved that the pluralist thesis that a heterogeneous society cannot be combined with a stable political system was wrong. He showed how stability in Dutch politics could sustain.

The pacification of Dutch politics in 1917 was the start of the period of political accommodation that lasted until approximately 1967⁵. Dutch accommodation can be understood as a transformation from confrontation to problem solving (Keman 1999). From this perspective, a zero sum game changed into a positive sum game. New actors entered the arena. The rules of the game were adjusted to solve the game. Proportional redistribution was used as a leading principle. In order for these new rules to be applied party elites had to be unchallenged and in control of their own pillar. Apart from agreements made about several issues, the electoral system was also reformed. The move towards a proportional electoral system, which was consistent with the proportional redistribution principle, had its reflection on the institutional setting. The Dutch case of accommodation shows that both rules in use and rules for use may change if and when preferences are revealed and recognised by all.

What were the rules in use? Society was strongly divided at mass level. Most people stayed within the confines of their own pillar. Pillars were 'closed shops' directed by their elites. Most people had only superficial contact with people who belonged to other pillars. People mostly voted for the political party of their own pillar. Opposed to the everyday life situation there were very frequent contacts at elite level. Constrained by institutional arrangements, political leaders had found a way to govern the country and to cooperate with each other, namely by segregation at the 'bottom' and conferences at the 'top' (Lijphart 1968). This was an elitist style of political decision-making. At mass level there was little influence. As a result, the pacification led to a passive political structure based on *divide et impera* made possible by a shared rule of proportional distribution and 'live and let live'. The stability of democracy was guaranteed by the elites' behaviour, while the role of voters was limited. They were expected to vote according to cleavage lines and not to participate actively.

Table 7.1 Rules of Dutch politics

1917-67 Lijphart (1968)	1967-77 Daalder (1974)	1977- Van Praag (1998)
Politics as business	Exposure of 'establishment ideology'; critical view of society	Politics as business
Agreement to disagree	Conflict	Agreement to disagree
Summit diplomacy	Self-determination at the base	Selective summit diplomacy
Proportionality	Polarisation to win a majority	Proportionality
Depoliticisation	Politicisation	Symbolic politicisation
Secrecy	Open government	Selective openness
The government's right to govern with little inference from parliament	Critique of dominance of cabinet over parliament and the influence of bureaucrats	Coalition parties dominate opposition in parliament
		Only shifts in government after elections
		Prime Minister is selected by the largest coalition party

Sources: Andeweg & Irwin (2002: 41, Table 2.2); Lijphart (1968); Daalder (1974); Van Praag (1998).

During the accommodation, the political elites developed several informal rules on how to cooperate with one another (see Table 7.1). Lijphart (1968) reconstructed these rules of pacification (Andeweg & Irwin 1993: 36). Business was the pivot of Dutch governance, not ideology. Politics was considered something to be taken

care of by professionals without emphasising ideological differences. Conflict was to be avoided as much as possible. There was an agreement to disagree about certain ideological principles without attempting to convince other groups. Differences were to be respected. Most difficult and urgent political issues were resolved by summit diplomacy between elites. As a consequence people at mass level were neither involved in nor informed by the principle of secrecy between elites. Proportionality was used as a rule of redistribution for political power as well as public spending among the pillarised segments of society. There was a tendency to depoliticise ideology and disputed issues. Political problems were not discussed on a fundamental level but considered as technical issues. Finally, the government took the right to govern without parliamentary interference. Since governments are constrained by policy agreements and supported by a majority in parliament, it is very difficult for opposition parties to influence and adjust proposals from either government or coalition parties (Daalder 1987). This means that to some extent a ruling government operates in a majoritarian system fashion, because *de facto* coalition governments are more powerful than parliament is. High loyalty of the members of parliament of the governing parties to the policy agreement secures the coalition government of a majority support and thereby no opposition from the coalition parties. There was no constant coalition of parties with a majority vote in parliament, but until the 1994 Christian Democrats were the pivot players. The new coalition that was formed after an election did not necessarily have to be the same as before and was not solely based on the election result.⁶

These additional informal rules were needed to prevent a deadlock in decision-making. These informal rules seem to fit the elitist character of the Dutch political system. When it gets tough, decisions are taken behind closed doors between the elites of the major political parties.

When the role of denominations declined during the 1960 and 1970s, consociationalism as a model started to fade. Although the urgency to overarch social, cultural and political cleavages had decreased substantially, the elites maintained to play a dominant role. More importantly, the rules for the politics of accommodation remained effective although some of them were adjusted (see Table 7.1).

Between 1967 and 1977 parties on the left tried to create a majority in parliament to surpass the pivotal power of the confessional parties. The left did however never win a majority and the leftwing Den Uyl government (1973-77) still needed support from the confessional parties. For a short period the informal rules of the politics of accommodation seemed to be replaced by rules that limited government dominance and increased the role for parliament and the participation of voters. After 1977

most of the old rules reappeared (see Table 7.1). The period between 1967 and 1977 can be considered just a temporary change. After 1977, the political elites tried to act as much as possible the same as during the politics of accommodation. While at mass level voters and society changed, at elite level the political system hardly changed. The result was a system of depoliticised elitism.

In *Democracies in pluralist societies* Lijphart (1977) formulated four basic principles of consociational democracy: executive power sharing or grand coalition, a high degree of autonomy for the segments, proportionality and minority veto. These principles were Lijphart's guideline in constructing indicators for the consensus model of democracy (Lijphart 1984; 1999). Figure 7.1 shows the scores on the index of consensus democracy based on 5 indicators in the Netherlands between 1965 and 1998, as discussed in Chapter 2.

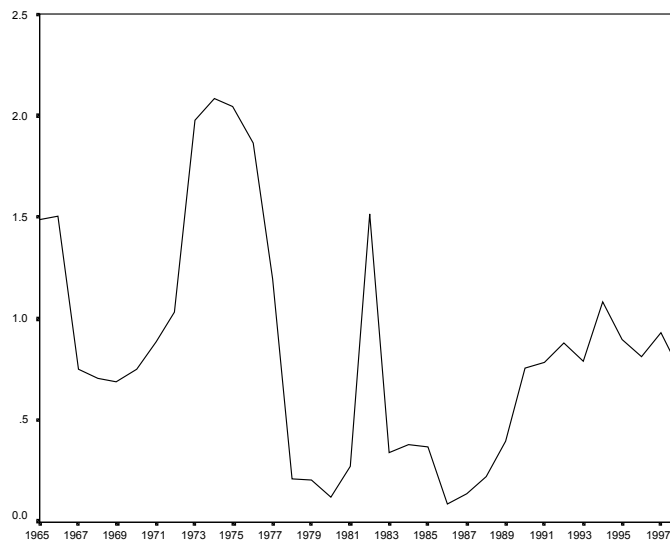


Figure 7.1 Development of index of consensus democracy through time, 1965-98

The index of consensus democracy in Figure 7.1 shows two peaks, one around the mid 1970s and one in 1982. The degree of consensus democracy increased slightly in the 1990s. The peaks in Figure 7.1 are mainly due to a high effective number of parties in the 1970s – until the creation of CDA – and the grand coalition in 1981. Both the Den Uyl government and Van Agt II government (see Table 7.2) cannot be labelled as consensual, because large ideological differences caused many internal conflicts. This shows that consensual institutions do not necessarily lead to consensus and cooperation between the actors. The lack of consensus and

cooperation in these governments can be seen as the reason of the reappearance of some of the old rules of the politics of accommodation after 1977. Attempts of left parties to reform the formal and informal rules of Dutch politics have failed.

Table 7.2 Coalition governments in the Netherlands (1965-98)

Period	Prime minister	Parties	Type of government	Parliamentary support
1965-66	Cals	KVP, PvdA, ARP	surplus	71%
1966-67	Zijlstra	KVP, ARP	caretaker	42%
1967-71	De Jong	KVP, ARP, CHU, VVD	minimal winning	57%
1971-72	Biesheuvel I	KVP, ARP, CHU, VVD, DS70	minimal winning	55%
1972-73	Biesheuvel II	KVP, ARP, CHU, VVD	caretaker	49%
1973-77	Den Uyl	PvdA, KVP, ARP, D66, PPR	surplus	65%
1977-81	Van Agt I	CDA*, VVD	minimal winning	51%
1981-82	Van Agt II	CDA, PvdA, D66	surplus	73%
1982-82	Van Agt III	CDA, D66	caretaker	41%
1982-86	Lubbers I	CDA, VVD	minimal winning	54%
1986-89	Lubbers II	CDA, VVD	minimal winning	54%
1989-94	Lubbers III	CDA, PvdA	minimal winning	69%
1994-98	Kok I	PvdA, VVD, D66	minimal winning	61%
1998-02	Kok II	PvdA, VVD, D66	surplus	65%

Source: Woldendorp, Keman & Budge (2000).

Parliamentary support: proportion of seats in parliament occupied by the coalition parties.

* CDA emerged from KVP, ARP, CHU

Since the 1960s the Dutch political landscape has changed. Public opinion changed, such as secularisation and class-consciousness, and subsequently voting behaviour changed. Dutch voters did not necessarily vote for the same party at every election. Higher voter volatility led to shifts between the traditional parties and enabled new political parties to gain seats in Dutch parliament. Three of them even have succeeded in participating in a government: DS70⁷, PPR⁸ and D66⁹ (see Table 7.2). Table 7.2 shows that most coalitions since 1965 were minimal winning. This indicates that grand coalitions lost importance since the 1960s. Altogether, changes in voting patterns and the shift towards minimal winning coalitions supported by a small majority, contributed to institutional change different from pure consensus democracy. Consensus democracy lost importance due to polarisation in politics and the rules in use changed. The Dutch political landscape has at least two dimensions: left versus right – which deal with socio-economic issues - and progressive versus conservative – concerning social norms and values - (Pennings & Keman 2003: 54). Dutch politics remains highly fragmented. When parties move on these ideological scales, rivalling parties are able to win votes. While Dutch

politics is highly competitive in the seeking for votes, parties have to cooperate to form coalitions. The electoral arena is not always congruent with competition for coalition formation.

7.3 Organised interests

This section discusses the institutional structure of the interaction of interest groups. How do unions and employers' organisations cooperate? The Dutch system of industrial relations is characterised by a weak organisational strength of workers and the presence of formal consultation and advisory bodies, although these have become less important through time.

Dutch unions are weakly organised. The percentage of union members of the total workforce declined from around 40% in the 1960s to less than 30% in the 1990s (Ebbinghaus & Visser 2000). The collective coverage rate, however, is rather high. Around 80% of the workforce is employed in a company or sector with a collective agreement. On top of the low union density comes the fact that unions are divided. The three federations are FNV, CNV, Unie-MHP (Ebbinghaus & Visser 2000). The socialist NVV and Catholic NKV have merged in FNV, which now is the largest federation. The Protestant CNV is the second largest federation. Unie-MHP is the union of specialised and white-collar employees.

Organisation rate among employers is much higher than among workers. Moreover employers' organisations are more homogeneous and are not rooted in pillarised structures. Almost all companies with over 100 employees are member of one of the employers' associations (Visser 1998: 299). Employers' associations are represented by the VNO-NCW, MKB (small business) and LTO (farmers). These organisations are divided functionally and not according to ideology or religion.

After World War II, two important institutions were formed to facilitate talks between social partners and government about socio-economic issues: the Socio-Economic Council and the Council of Labour (Delsen 2000: 14). The Foundation of Labour (STAR) was formed by unions and employers' organisations. The Socio-Economic Council (SER) is a permanent tripartite organisation which advises the government. For a long time the government was obliged to ask the SER advise about important socio-economic issues. Because of these formal institutions, social partners and government meet frequently. It has contributed to consensual and cooperative patterns of behaviour. Since the 1990s both councils have lost importance. The government is no longer obliged to consult with the SER, since 1996.

Collective agreements apply to union members and non-members alike. This takes away the workers' incentive to join a trade union. The Ministry of Social Affairs and Employment is allowed to declare a collective agreement binding or not for an

entire sector. The last decade saw an increase of sector or firm level collective agreements. Moreover, sector or firm level collective agreements have become the starting point for further employee negotiations. Figure 7.2 shows the development of corporatism in the Netherlands during four time periods.

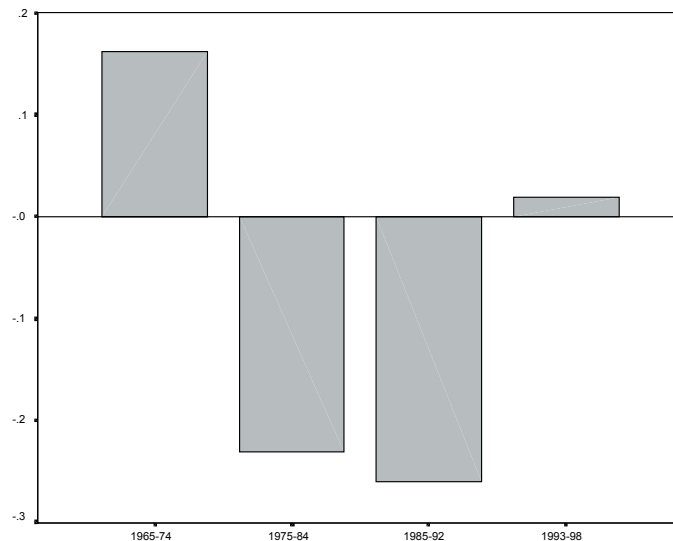


Figure 7.2 Development of corporatism in the Netherlands (1965-98)

In the first period, 1965-74, corporatism was at its strongest in the Netherlands. Between 1975 and 1992, workers were less well-organised. Cooperation on the national level often failed. In these periods, there were few agreements made between unions and employers' organisations. Consultation lost importance and wage bargaining was decentralised. This changed towards the 1990s. Both unions and employers' organisations realised that change was needed. Employers gave up resistance against reduction of working hours (Hemerijck, Unger & Visser 2000: 221). Since 1989 PvdA participated in government and the unions were not able to obstruct reforms of social security. In the 1990s, formal consultation became weaker, such as the SER, and government dominated the socio-economic arena. Nevertheless, government involved interest groups in policy formation on an informal basis. Since formal structure became powerless, it was almost the only way for these groups to influence socio-economic policy-making by the government.

Consensus democracy and corporatism show similar trends through time. Both types of institutions played an important role during the late 1960s and early 1970s, both their importance was reduced in the late 1970s and mid 1980s. In the 1990s the

political arena, by means of the government, dominated the socio-economic arena. Formal corporatist structures became weaker, while interest groups remained their influence through informal intermediation.

7.4 Socio-economic policy and performance in the Netherlands

The argument that the institutions of corporatism and consensus democracy contribute to economic success is discussed in Chapter 5. There is no doubt that economic recovery in the Netherlands in the 1990s was remarkable. The crucial question is how did this happen and how does it relate to consensus democracy and corporatism.

Dutch disease

Since the 1970s economic growth declined and unemployment increased. Expenditures on social welfare had grown enormously. The economic situation has been characterised as a Dutch disease: revenues from natural gas were used to pay the increasing costs of social security (Andeweg & Irwin 2002: 186). The result was a combination of a large welfare state and low labour participation.

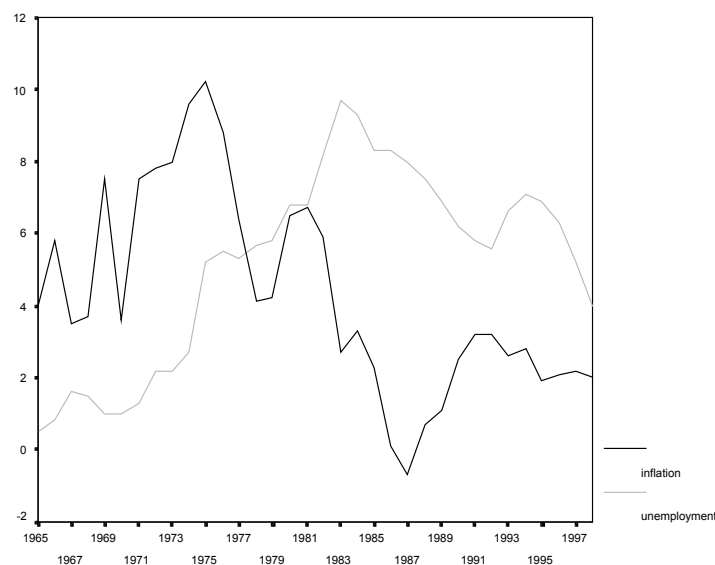


Figure 7.3 Development of unemployment and inflation rates in the Netherlands

Unemployment in the Netherlands saw an increase until 1982 and a decrease from 1982 until 1992. In the early 1990s there was a small rise of unemployment, but during the last years unemployment dropped sharply to around 3%. The economic

deterioration of the 1970s – partly caused by two global oil crises - is clearly reflected in the rise of unemployment. From 1982 on, official unemployment figures decreased.

The Dutch miracle

Increasing unemployment in the late 1970s, early 1980s made it clear to political actors and interest groups that institutional and policy changes were in dire need. Leftist parties were excluded from government participation and the centre-right government was marked by inertia. In 1982, strong government pressure forced trade unions and employers' organisations to sign an agreement about working time reduction and wage moderation.

The pact of Wassenaar that was signed in 1982 agreed on 'the suspension of price compensation in order to facilitate negotiations over job redistribution and working hours reduction' (Visser & Hemerijck 1997: 101). Later early retirement schemes were introduced to stimulate exit of older workers. This agreement contributed to a decline of labour's share in the national income from 74.2% in the 1970s to 65.8% in the 1990s (Hemerijck, Unger & Visser 2000: 185, table 5.4). The miracle-story explains policy change by agreements between the government, trade unions and employers' organisations. By consulting interest groups, the government found support for wage moderation, reform of the welfare state and the implementation of active labour market policy. As a result, wage costs relatively decreased, social expenditures decreased and labour participation increased.

From disease to miracle?

Is there a miracle and how can the miracle be explained? Some critical comments can be made about this (at first glance) remarkable recovery. First of all, unemployment rates are extremely sensitive to the definition of who is unemployed. In the Netherlands, the definition of unemployment was often adjusted. The current definition of unemployment includes those people who are registered at the employment and social benefit agency (CWI), who are looking for a job, are immediately available for a job of at least 12 hours a week and have no job of less than 12 hours a week (CBS 2003: 2). This definition excludes several groups that are not participating at the labour market, but among which are people who actually would like to have a job or are even actively looking for one. Until the age of 21, no one is counted as unemployed. Young people are either studying or working or they participate in an employment programme. People, working less than 12 hours a week, but who are actively seeking work for more than 12 hours are not counted either. Those who are not entitled to receive unemployment benefits, but

are actively seeking work are not counted. A large group that is not counted as unemployed are those receiving disability benefits.¹⁰ Registered unemployment¹¹ is much lower than the broad unemployment, which includes those who are entitled on social benefits (see Figure 7.4). Registered unemployment decreased to 3.2% in 1999, while broad unemployment was still 19.1%, almost as high as twenty years before.

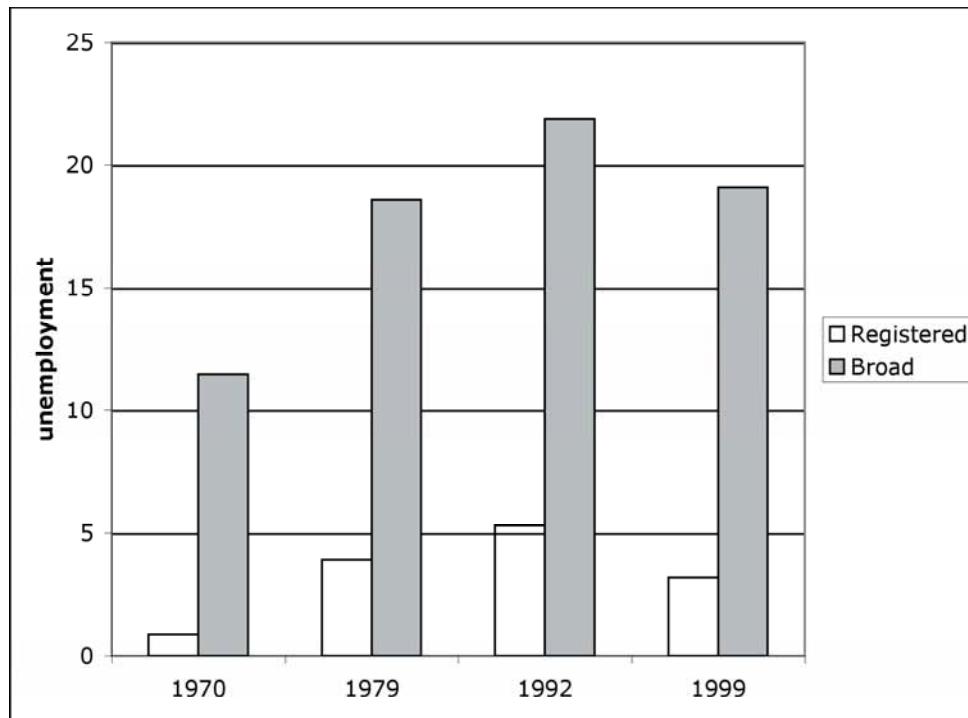


Figure 7.4 Registered and broad unemployment for selected years

Source: SCP (2000: 284, table 9.3).

There is still an enormous amount of inactive people in the Netherlands even though unemployment seemingly decreased. More than 900 thousand people are receiving a disability benefit. Many former workers were entitled to these disability benefits, which were higher than unemployment benefits. This means that the actual number of unemployed people in the Netherlands is underestimated (Hemerijck 1994: 25). The fact that the number of unemployed people probably exceeds official figures leaves the increase of employment undisputed. It must be added, however, that a large part of this increase of employment was realised in part-time jobs. Most of the part-time jobs are occupied by women. The flexibilisation of labour and the increase of part-time jobs stimulated the entrance of women in the labour market. Total labour participation rate, which was comparatively low in the Netherlands, increased.

The pattern of the Dutch inflation rate seems opposite to that of unemployment. Inflation made a free fall that lasted from the 1970s until the end of the 1980s. The 1990s saw an increase of inflation (see Figure 7.3).

To what extent are institutional variables accountable for these developments? How does the Netherlands perform compared to other countries? To visualise this, the mean scores on unemployment and inflation of nineteen countries are calculated. Figure 7.5 shows the difference between these means and the levels of unemployment and inflation in the Netherlands (in percent points). A zero score means that the level in the Netherlands is equal to the mean, positive scores indicate above average levels and negative scores indicate below average levels.

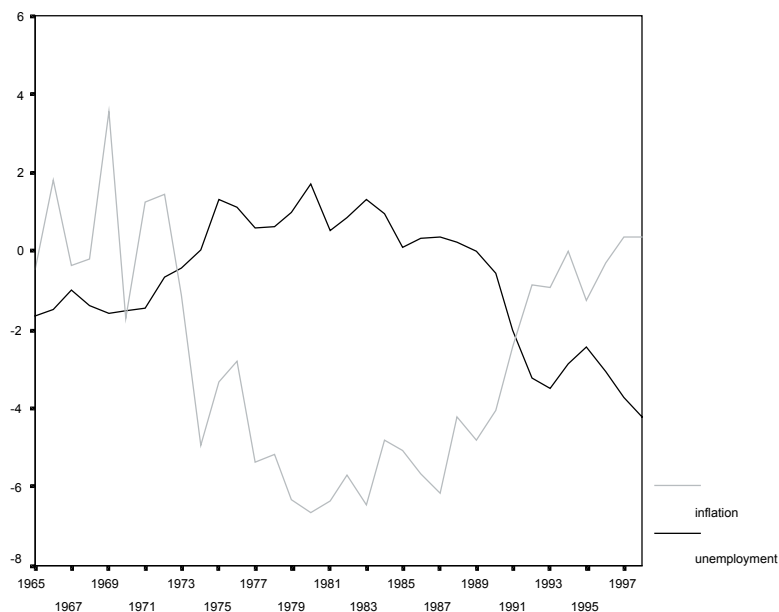


Figure 7.5 Difference between the levels in the Netherlands and the means for nineteen countries

This figure shows that the unemployment rates in the Netherlands fluctuated around average until 1980. During the early 1980s the unemployment rate was comparable to that of other countries. Since the late 1980s the official unemployment rate in the Netherlands has decreased to below average. Inflation was about the same as average – apart from some positive and negative peaks - until the early 1970s. From the mid 1970s until 1990, inflation was below average. Especially from 1977 to 1990 inflation was considerably lower than in other countries. In the 1990s inflation increased to an average level. Figure 7.5 demonstrates that the Netherlands performed worse in the late 1960s and early 1970s. Since the early 1970s either

inflation or unemployment was lower than average, but never both simultaneously. Hence, all actors shared the idea that low inflation and unemployment was good, as long as it is not at the expense of welfare.

7.5 Actors, institutions and socio-economic performance

Both institutions and performance in the Netherlands have changed. The importance of consensus democracy in the Netherlands declined, but most of the informal rules did not disappear. The structure of Dutch corporatism changed several times; formal and informal consultation and social pacts have changed, but did not disappear entirely (Hemerijck 1994). The Netherlands experienced a deep socio-economic crisis that was successfully reversed. The period of successful socio-economic policy is not marked by a higher degree of corporatism and consensus democracy. Actors did not achieve better performance through institutional change. The opposite causal relation seems more plausible. Changing socio-economic conditions changed preferences and power positions of actor and forced actors to adjust institutions. There is no pattern of increasing importance of consensus democracy and corporatism that has turned the Dutch disease into a miracle.

Actors

The Dutch party system is tri-polar, consisting of Christian Democrats, social democrats and liberals. Coalition governments consist of two or three parties representing these ideologies, in several cases other parties were added. The PvdA was traditionally connected to workers and trade unions, but the party lost a part of its traditional voters. In the neo-liberal 1980s the PvdA did not succeed in gaining coalition power and it became isolated. According to Kitschelt (1999: 338) this made 'the PvdA abandon its leftist course in favour of centrist appeals'. Like other European social democratic parties in the 1990s the PvdA adjusted its political programme by weakening its socialist roots. The new ideological road with neo-liberal influences is also known as the third way (Green-Pedersen & van Kersbergen 2002).

CDA and its three predecessor parties also lost much of its traditional support. To attract voters CDA was created on the basis of a Christian Democratic ideology that 'has been open both to different denominations and to secular influences' (Van Kersbergen 1999: 352). By adopting a strategy of politics of the centre CDA was able to attract non-religious voters. Conservative liberal VVD grew strongly and were in every coalition since 1977, except for the Lubbers-Kok government (1989-1994).

FNV and CNV, already comparatively weak unions, lost many members through time. There are several reasons for this decline. First, there is no direct advantage for being a union member in the Netherlands since many collective agreements are also effective for non-members¹². Second, in the 1980s the registered number of unemployed increased to about 10%. Third, there is general trend of decline of the traditional division of labour; workers became more flexible and switched more easily from one sector to another. For this reason employees could no longer identify with a certain group and as a result solidarity between workers declined. Fourth, the number of blue-collar workers declined and most employment was found in the service sector. Workers in the service sector are less likely to join a union. Fifth, the number of part-time and temporary jobs increased sharply.

Employers' organisations have always been well-organised. Since the 1980s employers have stressed that the proportion of wage costs must decrease and the proportion of profit increase. For this reason firms supported wage moderation and cuts in social security contribution. Wage flexibility, reduction of working week (pact of Wassenaar) and early retirement schemes were not only used for job growth, but many firms replaced jobs by machines and computers. This also helped to decrease the wage costs as proportion of total costs. In the 1980s, conservative and neo-liberal governments were supportive to firms at the cost of workers.

Institutions

How must the consensual character of the Dutch political system and the system of industrial relations be assessed? As is shown in Chapters 2 and 3, the Netherlands is a consensus democracy from a comparative perspective, but not very strong on corporatism, i.e. taken as bi-partite rather than tri-partite. In the 1970s and 1980s, centralisation and coordination of wage bargaining was moderate. The organisation of the work force in the Netherlands is rather weak. In the 1980s, employers' organisations were stronger and the centre-right government led by Lubbers pushed an agreement between workers and employers' organisations. Trade unions could choose between withdrawing from negotiations or trying to stay involved. Because unions were relatively weak, they had no other option than to continue to participate in consultation, even if the platform was almost powerless. In the early 1980s for instance, public sector unions tried to prevent a 3% decrease of nominal salaries. There was a period of strikes by civil servants, however with very little success. The government, in this case also operating as employer, could easily ignore the demands of the public sector unions (Hemerijck, Unger & Visser 2000: 216). This illustrates that industrial relations in the Netherlands cannot be

characterised by a nation-wide coordination of socio-economic policy where unions and employers are equal partners. The political tradition of consensus building gives interest groups access and input to decision-making and policy-making. This does not mean that they have a very strong input. Involvement of interest groups is rather instrumental and symbolic. There is still a hierarchy in which the political arena and the government are on top. The institutional structure of consultation and social pacts never disappeared, but in the 1980s its relevance appeared to decline.

In the Netherlands the consensual character of the political system is linked to the system of industrial relations. The level of corporatism has changed through time, from highly institutionalised consultation in the post-war period to polarisation and conflict in the late 1970s/ early 1980s and a moderate return of bi-partite consultation in the 1990s. Hemerijck (1994: 25-26) argues that in the late 1970s and early 1980s, neo-corporatism in the Netherlands failed to stimulate growth of employment. There was a polarisation between two coalitions of political actors and organised interests in the 1980s. On the one hand there was a coalition of confessional and neo-liberal political parties, the centre-right Lubbers government and employers. And on the other hand there was a neo-Keynesian coalition of trade unions and the PvdA. At that time, there was no national consensus on socio-economic policy. This changed in the 1990s, when the major three political parties agreed largely that government budget must be in balance and they acknowledged the need of social security reform. Moreover, many public tasks were privatised, but the government remained the main director of economic policy.

In the 1990s, ideological differences between the major parties were small. The political game had changed. There was not a political struggle about ideology, but parties operated carefully at the ideological dimensions to maximise electoral support.

7.6 Socio-economic problem-solving

The underlying hypothesis investigated in this study is that the institutions of consensus democracy and corporatism contribute to better socio-economic performance. In the Dutch case significant improvement of performance was not caused by increasing consensus democracy and corporatism. There are contradicting viewpoints on the developments in the Netherlands. The miracle-story wants us to believe that 'the pact of Wassenaar' was a breakpoint in Dutch industrial relations which paid off some fifteen years later in high employment rates and some drastic welfare state reforms (Visser & Hemerijck 1997). The Wassenaar agreement was made in order to create more jobs. Three days before this pact was

made, the central government threatened to intervene in the wages. The question arises whether or not the social partners agreed voluntarily and out of their own interest. They probably realised that they had no other option than to comply with the government proposals. There was no corporatist strategy developed. Moreover, wage moderation did not start in 1982, but before that, in the late 1970s (Delsen 2000: 26). The 'pact of Wassenaar' was rather symbolic than a policy change. Becker (2003) argues that the Dutch miracle is a myth and that 'wage restraint has not been the main cause of the impressive increase in employment in the Netherlands' (Becker 2003: 173).

The strategy of the purple coalition was not to increase, but to limit the formal influence of interest groups. Koole & Daalder (2002: 36) find that 'one of the goals of the purple coalition in 1994 was to reduce the influence of neo-corporatist arrangements'. Therefore it cannot be concluded that in the 1990s the government used a neo-corporatist strategy to stimulate economic growth and employment. The qualification that is more adequate is that the government took over control at the cost of interest groups and this increasing power was used to implement a neo-liberal policy and an active labour market policy. From a comparative perspective consultation of interest groups was still stronger than in other countries, but through time consultation became less present. Government plays an independent role and determines the rules of operation. There is no interaction between consensus democracy and corporatism as equally important arenas. Government, of the political arena, has dominated the socio-economic arena in which interest groups operate.

To what extent did the institutions of consensus democracy and corporatism contribute to the Dutch miracle? During the worst economic period in the Netherlands – in the late 1970s and early 1980s – many aspects of the consensual traditions were on the decline. In both the 1980s and the 1990s, the main struggle of the government was to find support for their attempts to improve socio-economic conditions by reforming the welfare state and cutting down on government expenditures. Until well into the 1990s unions strongly resisted a social security system reform. Since the PvdA participated in the governing coalition in 1989, the welfare state was reformed one step at a time. The participation of social democrats in this government removed potential resistance to some extent. This resembles the idea that 'only Nixon could go to China' (Shepsle & Bonchek 1997: 395-397). Still, PvdA, like CDA, lost many members and voters in the early 1990s because of the reform of the welfare state.

The purple coalition made a difference: no Christian Democrats in the centre with either liberals or social democrats, but a coalition of liberals and social democrats. Ideas were adopted from the third way, such as active labour market policy and

new public management. The purple coalition was a combination of left and right parties in government, which was unprecedented, and at the same time capital and labour were represented in the SER. Hence, another game could be played, because of the coalition of social democrats and liberals. The workers and social democratic voters were not able to obstruct reforms of public policy.

The explaining factor of the policy change is not the cooperation and consensus between political actors and interest groups, but government dominance. Visser & Hemerijck (1997: 110) understand this as a shadow of hierarchy. Since the return of the PvdA to government, the degree of consensus and cooperation in Dutch politics that is responsible for policy change has been at an all-time high. The collapse of Christian Democratic hegemony was followed by a continuing empowering of the government at the cost of influence of workers' and employers' organisations. The real Dutch miracle apparently is the restoration of the political control of the government without a political legitimacy crisis. The Dutch case shows that a crisis can change both actors' behaviour and institutional structure. But this does not necessarily lead to improved economic performance.

How can this miraculous socio-economic performance be explained? Wage costs as share of total costs decreased by wage moderation and flexible and part-time jobs increased. This configuration made it possible for the Netherlands to profit from global economic growth in the 1990s. There was a large labour reserve of women and inactive people that were stimulated to work. These potential workers could immediately do the work that was needed by the economic growth. This lasted until a shortness of labour supply grew in the late 1990s. Wages increased again and there was discontent about welfare and social policy, particularly education and health care. A new economic crisis will show the capacity of the institutional structure to turn it in another miracle.

International context

The international dimension is relevant in explaining socio-economic development. Due to the openness of the Dutch economy international developments have a strong impact on domestic economic growth. And despite the high level of welfare provisions and a high tax burden, wage costs have to be internationally competitive. The 1970s oil crises demonstrated the vulnerability of the Dutch economy. Incomes policy had always been crucial in the attempts to stimulate demand and to increase employment. In the 1970s, Den Uyl's centre-left government tried to stimulate economic growth by public investments and increasing purchasing power, whereas van Agt's and Lubbers' centre-right governments wanted to diminish the tax burden by cutting down on government expenditures. Notwithstanding these attempts,

public spending remained high until the 1990s. This can be explained by the incremental character of the policy-making process, the resistance against reform and by the fact that making drastic changes simply is politically dangerous (Braun 1989). Parties proposing or implementing such a policy have the chance of losing many votes, as was clear in 1994 when CDA lost many votes.

The international context has always been an important constraint of incomes policy. In the 1970s many attempts for national agreements failed but in 1982 a new accord was negotiated. The crisis clearly changed the actors' behaviour along with their willingness to cooperate, although this did not result in an obvious significant improvement. This is not necessarily problematic; it may even have fitted the expectations of these actors. In fact, it is in part the nature of the game. Corporatist agreements are developed to receive benefits. In 1982, actors were – to some extent – prepared to look beyond their own short-term interest. At that moment it was unclear what the long-term pay-off was going to be. The seriousness of the economic crisis forced the weakened trade unions to accept wage moderation.

7.7 Conclusions

This chapter has analysed the Dutch political system and its industrial relations. In the 1990s, the Netherlands received international attention for its successful labour market policy and its welfare state reform. Combined with the Dutch tradition of a consensual political system, it has been argued that in the 1990s in the Netherlands a typical institutional framework of corporatism and consensus democracy allowed drastic policy reform. The performance indicators of the Netherlands in the late 1990s are indeed remarkable. Unemployment dwindled to one of the lowest rates in Europe, growth rates were among the highest and inflation was acceptably low for a long time. Visser & Hemerijck (1997) were right in qualifying the Dutch developments as remarkable. These developments were unique to one country at a given period in time. It is not a universal model that can be applied in other countries, as is the case with the 1970s Swedish model (Esping-Andersen 1985).

The Dutch political system has often been characterised by its degree of consensus democracy and corporatism. Moreover, it has been suggested that there is a direct connection between the consultation economy and the open character of the political system. According to the measurement in this study, the degree of consensus democracy and corporatism is not as high as is often thought. Most characterisations of the Dutch political system are based on the period of the heydays of pillarisation and accommodation. But since the 1960s the political landscape has undergone serious changes. The Netherlands moved away from a

typical consociational model towards a more mainstream consensus democracy. And since the 1970s and 1980s were characterised by social and political conflicts and strikes, corporatism was certainly not that strong anymore.

The consensual political system in the Netherlands prevented a legitimacy crisis. Despite a severe economic crisis in the 1980s, political and socio-economic actors remained to be involved in the decision-making and policy-making process. Due to the weakness of trade unions, central government was able to take over control over macro-economic management. Interest groups had no effective power or veto. The Dutch miracle was not based on voluntary cooperation of political and socio-economic actors. The consensual character of the political system masked the weakness of the interest groups.

Increasing employment and economic growth in the 1990s can not be explained by an increasing importance of consensual and corporatist institutions. Other factors were more important, such as entrance of women to the labour market, flexibilisation of contracts and social security reform. The 'Dutch miracle story' explains these changes by the consensual character of Dutch industrial relations. However, these policy changes were only possible by the weakened position of trade unions. They were powerless to obstruct these reforms. A next economic crisis must prove the resilience of Dutch political-economic institutions. It will be very difficult to keep employment high and the social security system at its current level.

Notes

¹ Sociaal-Economische Raad (SER).

² Stichting van de Arbeid (Star).

³ For recent data about the welfare state see Castles (2002).

⁴ This coalition was formed by social democrats PvdA, social liberals D66 and conservative liberals VVD and for the first time without CDA.

⁵ In the elections of 1967 new political parties won several seats at the cost of the traditional parties (see Table B.2, Appendix B).

⁶ A striking feature of Dutch coalitions is the lack of causality between election results and government coalitions formed. In 1977, for instance, the PvdA was a clear winner, receiving most votes and being the largest party in parliament, but it did not manage to participate in the next government. The result is that voters have limited power to change government composition and its policy.

⁷ A conservative social democratic splinter of the Labour party.

⁸ Leftwing religious party.

⁹ Liberal democrats, strongly focused on institutional reform, such as introduction of referendums and election of the Prime Minister.

¹⁰ In 1998, more than 900 thousand people (almost 13% of the total labour force) received a disability benefit WAO/WAZ (SCP 2000: 337, table 10.2).

¹¹ This is not exactly the same as standardised unemployment by the definition of the OECD.

¹² In 1994 coverage rate is 81% against a trade union density of 26%.

8 NEW ZEALAND: REVOLUTION AND EXPERIMENT

8.1 Introduction

New Zealand is selected as a case that originally belonged to the cluster of majoritarian and pluralist countries. During the late 1970s and the 1980s New Zealand experienced a long period of deteriorating socio-economic performance. New Zealand is an interesting case because of two institutional developments. First, the political system changed when in the 1996 the first-past-the-post system (FPTP) was replaced by the mixed-member-proportional system (MMP), which increased the proportionality of the electoral system and the (effective) number of parties in parliament and introduced coalition governments. Second, wage bargaining was strongly decentralised since the 1980s.

In 1984 New Zealand changed its socio-economic policy and in the 1990s the welfare state underwent drastic reforms. The reform of the welfare state in New Zealand was by comparative standards quite radical (Pierson 2001: 434). Until the 1980s, New Zealand had a highly regulated welfare state (Davidson 1989: 1-2). New Zealand, like Australia, developed a welfare state before that of Western European countries. Castles (1985: 45) observes that 'both Australia and New Zealand were social policy innovators in the early period and converged to become welfare state laggards in the most recent past'. In New Zealand the welfare state was restructured and socio-economic policy was changed considerably. In 1984 the labour government implemented a neo-liberal socio-economic policy to reverse the problems caused by oil crises and the declining export to the UK due to the UK's European Community membership of 1973. Remarkable from an ideological point of view, is that this change to a neo-liberal economic policy was induced by a labour government (Buchanan & Nicholls 2002: 20).

Radical policy measures were possible in New Zealand because of the majoritarian system of democracy – an even more pronounced system than the UK had (Lijphart 1984). In the majoritarian type of democracy, one political party has strong control of the political arena and meets little opposition. Until the electoral reform of 1996, all governments had been single-party governments for the first-past-the-post electoral formula results in one governing party with a majority of seats in parliament. The majoritarian character of New Zealand's political system gives voters a clear-cut choice. The party receiving the largest number of seats is capable of executing its political programme on its own. The electoral reform is highly remarkable, because usually most attempts to reform an electoral system fail (Nagel 1994). This chapter focuses on the shift away from majoritarianism, the changing structure of policy concertation among organised interests and the reform

of socio-economic policy in the 1980s and 1990s. This chapter aims to show that in New Zealand actors changed institutions in order to improve socio-economic performance. These changing institutions however did not lead to more successful socio-economic policy and better performance.

8.2 Political system and party government

Although known as majoritarian democracy New Zealand's political system has also consensual characteristics. The Maori minority has a secured representation in parliament. And after a long time of allocating the seats in parliament by the first-past-the-post system, it was decided by the 1993 referendum to replace this electoral formula by a more proportional one. The 1996 elections were the first without the plurality rule of single seat constituencies; instead the mixed member proportional system – adopted from the German political system – was used. Hence, consensus democracy was enhanced.

In many other respects New Zealand still has majoritarian elements from the UK. First of all, there is no written constitution in the form of a document like the US constitution that is protected by a Supreme Court. The New Zealand government is sovereign, meaning that it cannot be overruled by a constitution and a Supreme Court. This does not mean that New Zealand does not have constitutional laws or written down conventions (Mulgan 1994: 51). An important document, which plays a central function in New Zealand's political system, is the 1840 Treaty of Waitangi. This treaty marks the founding of New Zealand as a British colony. This treaty was signed by Maori tribal chiefs who pledged allegiance to the British Crown. From that time, New Zealand was ruled by a Governor. In 1852 a House of Representatives was established to counterbalance the Governor's power. In 1893 all adults, male and female, became eligible to vote. New Zealand was one of the first countries in the world to introduce universal suffrage. In 1947 New Zealand became officially independent, although the Queen of England has remained head of state.

In New Zealand constitutional political power is dispersed over the Sovereign, the Executive, the Legislature and the Judiciary (Mulgan 1994: 53). In reality however, more power is concentrated in the hands of the Prime Minister and his cabinet of ministers than is laid down legally. The executive consists of the ministers, who must be elected Members of Parliament. The Prime Minister – officially *primus inter pares* – is the political leader of the government and at the same time leader of the major political party in parliament. The position of the Prime Minister is very strong. She appoints the ministers of the cabinet and is leader of the party. There is no strong division between legislative and executive power, since all ministers are also members of parliament. The real dichotomy exists between the ruling party and

the opposition. A final characteristic that Lijphart (1984) perceived as majoritarian is a unicameral parliament. The power of the House of Representatives is not counterbalanced by a second chamber or senate. The majoritarian character of New Zealand's system can be summarised by a dominant Prime Minister who is political leader of the single government party in a unicameral parliament, where two parties hold most of the seats. Moreover, the New Zealand government is strongly centralised. Is New Zealand still such a strong case of the Westminster model of democracy, or has it moved more towards the consensus side of the spectrum? A major indication for this is the change to a more proportional electoral system.

Electoral reform in 1996, where MMP replaced FPTP, changed the political institutions. Why has this system of MMP been implemented in New Zealand politics? Since the 1950s the number of absolute votes for the two main parties has been on the decline. Voter turnout declined in this period too (Vowles 1995: 97). In 1978, the National Party received 39.8 % of the votes, which translated into 51 seats – 55.4% of the total number of seats, while Labour received only 40 seats – which is 43.5% - and 40.4% of the votes. The result of the 1978 election led to a discussion about electoral reform in New Zealand. In 1981 the Labour party again received more votes, but less seats than the National party. In the 1978 and 1981 elections, the Social Credit Party received respectively 16.1 and 20.7 % of the votes and a mere 1 and 2 seats.

In the early 1980s, the Labour party was frustrated because it remained in opposition, while being the party with the largest share of the popular vote. In the 1984 political programme, the Labour party announced to investigate the need for electoral reform, when it would be in power. The main problem for electoral reform is that parties favouring reform are most usually in opposition and parties in power have in most instances no incentive to support electoral reform. Once the parties that in their original disposition support reform are in power, they have no interest anymore to stick to electoral reform. (Nagel 1994: 525) speaks of 'a virtual iron law of political self-preservation'.

Nevertheless, in 1984 Labour government appointed a Royal Commission on the Electoral System (RCES). The commission evaluated several electoral systems and recommended the introduction of the MMP. The commission instigated on organising a binding referendum after the 1987 elections. Labour Prime Minister Lange wanted to organise a referendum¹, but most members of the Labour party actually wanted only modest electoral reforms (Nagel 1994: 526). Because of these internal disputes in the Labour Party no referendum was held (Boston et al 1996: 20-21). The National Party advocated electoral reform to gain electoral support and

to illustrate the unwillingness of the Labour Party for electoral reform. Afraid of losing votes, Labour advocated electoral reform as well. The result was a chicken game² between the National Party and Labour. The two parties converged to support of electoral reform, while their actual preference was against reform (Ahmed 1999: 14). In the case of New Zealand, it could have been electoral too costly for both parties not to support electoral reform.

When after the 1990 elections, the National Party took over political power from the Labour party they did not give voters a binding choice between MMP en FPTP. To prevent electoral reform the leaders of the National Party decided to organise two referenda. They hoped that because of the complexity of the referenda voters would in the end prefer the status quo (Nagel 1994: 526).

In September 1992 an indicative referendum was organised asking two questions to the voters: (1) 'Do you want a change of the electoral system' and (2) 'Which of the following alternative voting systems do you prefer: supplementary member system, single transferable vote, MMP or preferential voting system'. 84.7% of the participating voters choose for a change to the voting system (Boston et al 1996: 21). The MMP received 70.5% of the votes over three other alternatives: supplementary member system, single transferable vote system and preferential voting system. Boston et al (1996: 22) argue that this landslide majority support for electoral reform can be explained by anti-government feelings among voters. They had undergone eight years of drastic policy reforms and welfare cuts, without seeing any improvement of the macro-economic performance. Nagel (1994: 527) believes that it would be too easy to conclude that New Zealanders voted for electoral reform because of economic discontent. Voters were more dissatisfied with the way politicians enacted economic liberalisation than with policy itself. Nevertheless Nagel (1994: 527) believes that the methods used by the politicians 'fundamentally disturbed the political culture and drastically weakened New Zealanders' confidence in their country's political institutions'. In the binding referendum held on November 1993 a majority of 53.9% of the votes preferred the MMP to the FPTP³ (Boston et al 1996: 23).

The House of Representatives is the key institution of democratic accountability since it is the only institution of the state whose members are directly chosen by the people (Mulgan 1994: 93). Since 1996, the House of Representative has been elected according to the MMP-rule. The voters cast two votes: one vote on a candidate in their constituency and one vote on the national party lists. The total number of seats in parliament was increased from 99 to 120. A total of 60 seats are allocated by the FPTP-rule, the other 60 seats are allocated by the MMP-rule. After electing a MP for their own constituency, a voter chooses a party from a list of

parties. A party only gets seats if it wins in at least one constituency or if it receives at least 5% of the votes⁴.

What were the effects of the change of electoral rule in New Zealand on people's voting behaviour and the composition of parliament? Figures B.3 and B.4 (in Appendix B) show the distribution of respectively votes and seats over the political parties. Figure B.3 shows that at least until the mid 1970s the two main parties received about 90% of all votes. After this period, this proportion declined, with a 62% all-time low in 1996. It is clear that in the last ten years, the main parties have to share a large proportion of the votes with the small parties. This is not only a matter of a changing voters' preference. The introduction of a more proportional electoral system made it rewarding to vote for smaller parties. A vote on a small party was no longer a lost vote. When the FPTP system was still in use, small parties - such as the Social Credit Party and the New Zealand Party – sometimes received many votes, but only for one or two elections. Voters realised that their electoral signals were not transformed into political power.

Figure B.4 illustrates clearly the change of the party system. Until 1993 only two parties played a role in New Zealand's parliament. In 1996 and 1999 the composition of parliament was much more diverse. Moving to the MMP system resulted without doubt in reducing the parliamentary power of the two main parties and a fundamental increase of the parliamentary presence of the small parties.

An indicator of the fragmentation of the electoral and parliamentary distribution of votes and seats is the effective number of parties. Until 1996, there was a discrepancy between the electoral and the parliamentary number of parties. Since 1996 the difference between these indicators has become smaller and thus disproportionality decreased sharply.

Table 8.1 Composition of governments in New Zealand (1963-99)

Period	Prime Minister	Type of government	Parties		Parliamentary support
1963-66	Holyoake	single party government	NP		54%
1966-69	Holyoake	single party government	NP		52%
1969-72	Holyoake	single party government	NP		52%
1972-72	Marshall	single party government	NP		52%
1972-74	Kirk	single party government	Labour		63%
1974-75	Rowling	single party government	Labour		60%
1975-78	Muldoon	single party government	NP		60%
1978-81	Muldoon	single party government	NP		54%
1981-84	Muldoon	single party minority government	NP		49%
1984-87	Lange	single party government	Labour		59%
1987-89	Lange	single party government	Labour		61%
1989-90	Palmer	single party government	Labour		60%
1990-90	Moore	single party government	Labour		60%
1990-93	Bolger	single party government	NP		70%
1993-95	Bolger	single party government	NP		51%
1995-96	Bolger	minimal winning	NP	ROC*	51%
1996-97	Bolger	minimal winning	NP	NZ First	51%
1997-99	Shipley	minimal winning	NP	NZ First	51%

Sources: Woldendorp, Keman & Budge (2000); Wood (1996); Mulgan (1994: 72)

* ROC is a breakaway faction of NP (Woldendorp, Keman & Budge 2000: 404).

Party government

Obviously, until 1996 all governments were single party governments. In all these cases the ruling political party had a majority of the seats in parliament, with the exception of the third Muldoon administration. Since then, coalitions were formed which moved the political system towards practices more typical for consensus democracy. From 1997 to 1999 the National Party formed a coalition with New Zealand First – a party with strong Maori orientation.

What has the impact of all these institutional changes been on the degree of consensus democracy in New Zealand? Figure 8.1 shows the development of this index.

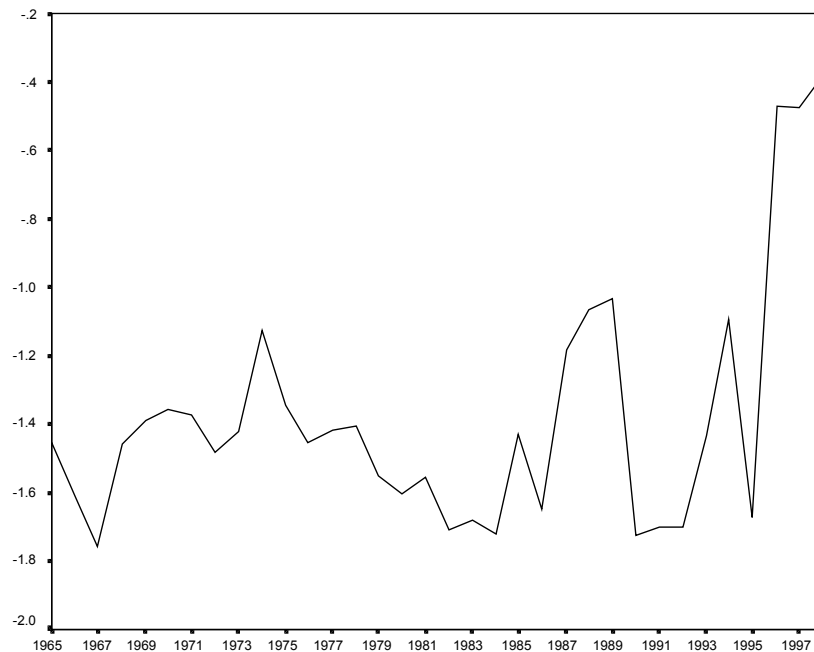


Figure 8.1 Degree of consensus democracy in New Zealand

The degree of consensus democracy was obviously quite low until 1996. There were small fluctuations through time, but it remained the lowest of twenty democracies. As expected, after the electoral reform New Zealand moved towards the consensus side of the spectrum – or actually the centre of the majoritarian to consensus democracy scale. The adoption of the MMP system caused a dramatic effect in the institutional setting of New Zealand's politics. However, it did not make New Zealand a full-fledged consensus democracy. The main cause for this has been that coalitions have been minimal winning and the effective number of parties is still comparatively low. Nevertheless, because of the need to form coalitions, there was not a single party anymore controlling the political arena without taking into account other parties.

8.3 Organised interests

New Zealand – like Australia - has always had some elements of corporatism in terms of bi-partitism throughout history (Mulgan 1994: 196). Yet, until the reforms of the 1980s, wage bargaining was state regulated. An Arbitration Court, which not only passes judgement in individual disputes, had the power to regulate wages in order to influence the national economy (Mulgan 1994: 158-159). Employers and

unions could negotiate in court. It was the official body where representatives of interest groups came together and had the opportunity to influence macro-economic policy. Figure 8.2 shows the scores of New Zealand on the index of corporatism.

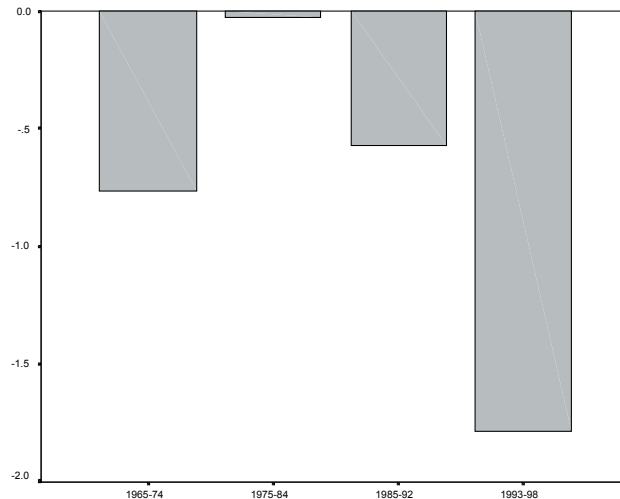


Figure 8.2 Corporatism in New Zealand

Figure 8.2 clearly shows the decline of corporatism in New Zealand after 1984. Until that year, New Zealand had a legal platform that regulated industrial disputes between workers and employers. Wages and prices were government regulated. Interest groups had little access to governmental policy formulation. The farming sector in particular was protected by government regulation. Government involvement in agriculture and the national system of wage and prices were too strong to refer to it as corporatism; state-directed planning would be more accurate. The main advantage of corporatist institutions is the promotion of coordination between capital and labour. If employers and workers are able to settle their own industrial disputes to prevail national interest, it can form a sound basis for good socio-economic performance. The role of the New Zealand government was a dominant one. The central government steered the national economy heavily and in great detail. Social partners felt boxed in. New Zealand had manifested a unique combination of a majoritarian political system – which secured an unrivalled position of the central government – and a state led economy. There was involvement of the social partners, but there were few possibilities for these actors to act independently from the central government. According to the definition of corporatism used in this study (see Chapter 3), the degree of corporatism in New Zealand has always been generally low.

When the Labour Party came into power in 1984, the labour market was deregulated (Kelsey 1995: 173). Compulsory arbitration was abolished in 1984. In 1987 the Labour Party introduced the Labour Relations Act. This law left registered unions their monopoly over categories of workers covered by their membership rules (Kelsey 1995: 175). Unions need to have a minimum of 1000 members. This led to a strong decrease of the number of unions, from more than 250 in 1985 to around 80 in the late 1990s (May et al. 2001: 319).

New Zealand knows one peak organisation, the New Zealand Council of Trade Unions (CTU), which was formed in 1987 (Kelsey 1995: 176). Later the CTU merged with the Trade Union Federation (TUF), which was formed in 1993 (May et al. 2001: 325). The Employment Contracts Act of 1991 abandoned compulsory unionism in favour of individual employment contracts (Kelsey 1995: 181). These government measures meant a strong decentralisation of wage bargaining from central and sector level to firm and individual worker level.

The reforms that were induced by the Labour government in the 1980s meant a strong deregulation and decentralisation of labour relations. The trade unions lost a lot of their power and membership declined sharply. Union density declined from 43.5% in 1985 to less than 20% in the 1990s (May et al. 2001: 319). Protection of wages and employment was removed in favour of unrestricted free market negotiations. The labour market reforms were initiated by the Labour government and were continued by the National Party that came in power in 1990. Since the deregulations New Zealand certainly belongs to the uncoordinated market economies. Coordination and centralisation of wage bargaining had become very low and the trade union were organised weakly.

The specific economic and institutional constellation of New Zealand explains the 1970s decline of socio-economic performance. Import and export were under total government control. There was no free international trade to optimise internal and external production. The government tried to protect the agriculture sector. The government imposed a wage freeze, prices and the currency rate were fixed. There were no incentives for New Zealand firms to innovate the production process. New Zealand's institutions produced a dominant government and a state directed type of wage bargaining. This led to a rigid economic structure with closed shops. This may be an explanation of the bad performance that New Zealand experienced for a long time and the remedies implemented by the government. The next section discusses the decline of New Zealand's performance in the 1970s and the shock therapy to improve it in the 1980s in further detail.

8.4 Socio-economic performance in New Zealand

Most aspects of the New Zealand economy were under strong government control. This system could survive for a long time, because a large proportion of its export – mainly consisting of agricultural products – went to the United Kingdom on a preferential basis. In the 1980s the system came under pressure urging the government to a radical reform of economic and social policy. Exports to the UK declined drastically after the UK became more and more integrated in the European Market. This section discusses whether or not the government was successful in coping with the economic crisis by radical policy reform. Many nationalised companies were privatised and the welfare state was reformed drastically (see Schwartz 2000).

Until 1984, governmental economic control was pervasive and rigid (Scott 1996: 5). Wages, prices and interests were frozen. Exchange rates were controlled by the central bank and the government. Import was restricted to protect local production. Some steps toward liberalisation had already begun prior to 1982. The government was not able to negotiate an incomes policy with the trade unions. This had accelerated the inflation rate to 15% by 1982 (Scott 1996: 5). Government's freeze on prices and incomes did not solve economic problems. The government deficit increased and the New Zealand currency devaluated.

The newly elected 1984 Labour government started a series of radical policy reforms. Although the Labour party was traditionally social democratic, it initiated neo-liberal economic policy. Government tasks were privatised and the welfare state was reformed. In 1984 the condition of New Zealand's economy was disastrous (Scott 1996). The price system was not working properly because of the state regulations and the system of subsidies and taxes. There was poor productivity and low innovation; free import and export was not possible. The labour market did not work efficiently: workers were duly protected by law and real wages were high. The tax system contributed to avoidance. Production sectors were under strong government control. Several government-run enterprises failed because of mismanagement. Stabilisation policies were ineffective and worked out pro instead of anti-cyclical. This means that a strong state cannot change a bad condition into a good one.

The major changes that had to be made were the withdrawal of the government from activities that could be organised by the private sector and the opening up of the New Zealand economy to international competition. The government controlled many aspects of economic life and many tasks that were not necessarily public goods were previously provided by the government. These activities have been privatised since 1984. At the same time, the protection of the internal market against

foreign companies was weakened. The expectation was that in the long run, the private sector would profit from a more independent role – without government intervention – and competition from the international economy.

The rates of unemployment and inflation as indicators of performance are shown in figure 8.3.

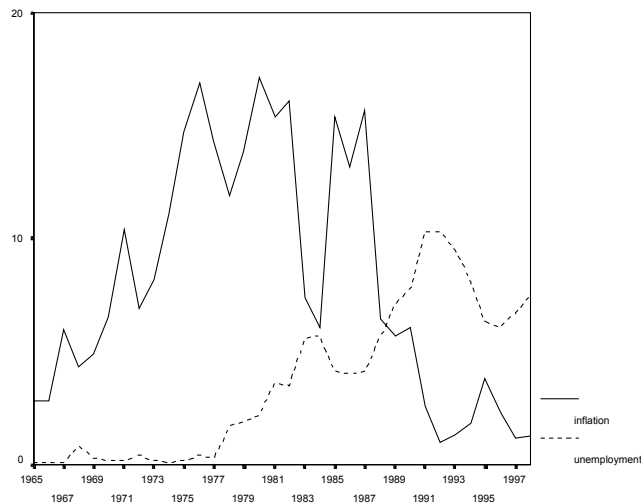


Figure 8.3 Unemployment and inflation rates in New Zealand

Figure 8.3 shows that, until the mid 1980s, inflation rates were very high. Only after that period, inflation dropped below 10%. Unemployment developed in the opposite direction. In the early 1990s, unemployment increased to more than 10%, but decreased slightly in the mid 1990s. The pattern shows a trade off between unemployment and inflation.

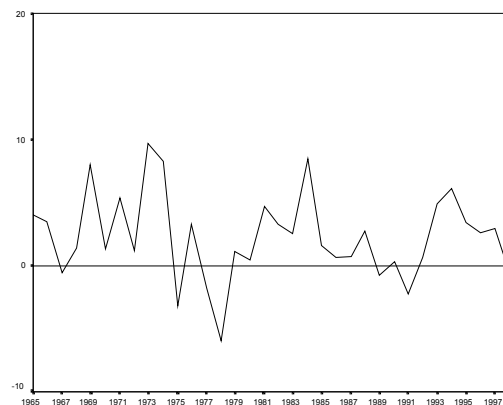


Figure 8.4 Economic growth in % in New Zealand

Economic growth development has been very unstable. There were several periods of fast economic growth (e.g. the early 1970s and a peak in the 1980s) and several periods of negative growth (e.g. the late 1970s and between 1987 and 1993). This shows that the radical policy measures since the 1980s did not result in a steady economic growth in the late 1980s and the 1990s.

8.5 Actors, institutions and socio-economic performance

This section discusses the interaction of actors and institutions and its impact on socio-economic performance. A majoritarian and non-corporatist country like New Zealand performed worse than many consensus democracies and corporatist countries, despite change of its institutions and the implementation of a radical socio-economic policy. In terms of consensus democracy and corporatism it moved in opposite directions. In the 1980s New Zealand wage bargaining was deregulated and decentralised and became less corporatist. In the 1990s a more proportional electoral system changed New Zealand from straight majoritarian towards more consensus democracy.

Actors

In 1984 the Labour party changed its ideology by adopting economic reform as promoted by the American president Reagan and British Prime Minister Thatcher. This was clearly a move from the traditional social democratic ideology to neo-liberalism and monetarism, which became fashionable at that time. Why has the Labour Party been able to adopt such radical economic reform? Castles, Gerritsen & Vowles (1996) argue that after years of governance by the party on the right, policy challenge and transformation was a comparatively low risk strategy for the incoming Labour government. Nevertheless, the shift to neo-liberal policy alienated a part of the traditional Labour support. On the other hand, however, the Labour party shifted its ideological position towards that of its competitor, the National Party. This party was conservative and partly shared ideas that were introduced by the Labour Party in the 1980s. In ideological terms, the Labour Party moved towards the position of the National Party. A loss of voters on the left side of the political spectrum was for a short time compensated by winning votes from the National Party.

The Labour party played a game at two different levels: in parliament and in the electoral arena. The first priority of the Labour Party was to change socio-economic policy and to restructure the welfare state. Selecting this ideology of socio-economic reform, it came in competition with the National Party. The Labour Party was successful in implementing such a radical policy shift and the party

gained credibility. The dilemma for each party during a severe economic crisis is to choose between credibility and electoral support. By implementing unpopular policy-programmes, on the one hand votes were lost, but on the other hand the Labour Party showed its capability to reform and to try to solve socio-economic problems.

There was not only a loss of electoral support for specific parties; voters lost their faith in the political system as a whole and resulted in a structural decline in the people's support for the political system. In several occasions new parties were successful in gaining seats in parliament, but they never had a chance of participating in government and having a strong impact on public policy. This typical majoritarian feature of the political system made it easier for the Labour party to persist its radical policy programme.

New Zealand has a relatively homogeneous society, with a majority descending from Anglo-Saxon immigrants and a minority of the indigenous Maoris. As elsewhere in Western democracies, traditional party adherence declined. The significance of the socio-economic division in society declined as well. There was a tendency among voters to shift to other parties, but the electoral system prevented the development of real alternatives.

For a long time, unions were relatively strong, but they were considerably weakened in the 1980s and 1990s by the labour market reform. Unions lost their monopoly in wage bargaining, thereby losing many members. Traditional actors lost ground and are not as powerful anymore.

Institutions

To what extent do institutions in New Zealand deviate from the other Western democracies? Compared to the other countries, New Zealand's political system was typically majoritarian until 1996. The level of corporatism was medium to low compared to that of others. There was room to manoeuvre for actors for institutional change. This is in contrast with the Netherlands, where change of formal rules is limited and informal rules have regularly been adjusted. In New Zealand the formal rules of the game changed.

Linkages between consensus democracy and corporatism

Consensus democracy and corporatism appear to be separate arenas and each has its own dynamics. Consensus democratic practices were enhanced in New Zealand, while corporatism became less important in the 1990s. The labour market deregulation in the 1980s and 1990s proves that the political system is dominant to the socio-economic arena. Government can impose rules on unions, employers'

The institutional dynamics of consensus and conflict

organisations and wage bargaining. In New Zealand, government sets the rules that determine the room to manoeuvre for the actors, which is in this case very limited.

Socio-economic performance

New Zealand's economy was steady for a long time. Many aspects were strongly regulated and a substantial part of exports, mainly consisting of agricultural products, was secure due to trade with the UK. Since the 1970s economic growth saw a strong decline. Inflation increased since the 1970s and unemployment increased since the 1980s. Socio-economic performance was quickly deteriorating and urged the actors to change. In the 1980s the Labour government implemented unprecedented policy reforms according to a neo-liberal programme. Neo-corporatist strategy did not play a strong role in New Zealand to solve socio-economic problems. Since the 1980s, remaining elements of corporatism were removed as well. Hence, there was a clear impact of socio-economic performance on preferences of actors and their strategy and on institutions. This impact was not towards corporatism, but a step away from it. The radical policy programme was not implemented on basis of consensus and cooperation, but by a single-party government. No consensual institutions, but majoritarian institutions were used. These majoritarian and pluralist institutions did not appear to have much success. Only in the 1990s inflation decreased and economic growth increased, unemployment remained high.

It is difficult to determine whether performance would have been better with consensual and corporatist institutions. Consensus democracy would have contributed to more support of the radical programme among the voters. In New Zealand, the combination of radical reform and majoritarianism led to a loss of support in the political system and to electoral reform in the long term. Coordinated and centralised wage bargaining could possibly have contributed to wage moderation, which could mitigate inflation and stimulate economic growth. In New Zealand a neo-liberal strategy of flexibility of wages and contracts was chosen that weakened both trade unions and the position of individual workers.

Central bank

For a long time, the central bank in New Zealand was controlled more strongly by the government than in most other Western democracies. In the 1980s the government implemented a monetarist strategy to control inflation and unemployment, however without success. The Reserve Bank Act of 1989 made price stability the sole objective of the central bank (Kelsey 1995:160). Trade and employment were no longer a goal of the Reserve Bank. There was no direct government control

anymore, which increased central bank independence. This change of the role of the central bank contributed to lower inflation in the 1990s. At the same time, unemployment levels increased and remained quite high. This indicates that price stability was achieved at the cost of rising unemployment.

International context

For a long time New Zealand's economy was heavily dependent on the UK. Most of the exports consisted of agricultural goods. UK's integration in the European economy, contributed to the decline of New Zealand's exports. Due to its isolated position, it was difficult to get access to new markets. Moreover New Zealand met fierce competition from Southeast Asian countries. For this reason, it is extremely difficult for New Zealand to promote economic growth by an export-stimulating strategy.

8.6 Socio-economic problem-solving

In Chapter 1, two stages of socio-economic problem-solving are distinguished. First, actors acknowledge the existing crisis and change their behaviour. This stage emphasises the impact of performance on actors' behaviour and institutional arrangements. Second, policy is reformed and institutions are changed to optimise performance. This stage focuses on the impact of institutions on performance.

In New Zealand bad economic performance urged the actors to change their behaviour. This resulted in different policy choices and in crucial changes of the institutional context. In the case of New Zealand we can even speak of revolution and experiment. Here we see an interesting connection between the type of institutional arrangements and the kind of policy choices. In the 1980s dissatisfaction led to radical changes in socio-economic policy. Protection by the government of national companies against international competition was lifted in many areas. New Zealand's welfare state reforms were unparalleled in the Western world.

The majoritarian political system of New Zealand gives a dominant role to a single political party. And for this reason radical policy changes are easier to conduct. The Labour Party played a crucial role in changing socio-economic policy. The social democratic character of the governing party contributed to the acceptance of the policy change by potential opponents, such as trade unions and left-wing voters. While a conservative and neo-liberal government would have caused strong opposition from the side of the labour movement, the fact that a social democratic party was involved weakened resistance. Although in a majoritarian democracy a radical policy reform appears easier to conduct, it is still politically risky. The lack of economic success resulted in a continuing dissatisfaction with the political system.

The New Zealand case shows that a socio-economic crisis can induce policy change. In New Zealand, however, the crisis persisted. As a reaction institutional arrangements were changed, without much success. The socio-economic crisis resulted in policy reform and institutional change, but these changes hardly led to better performance. New Zealand shows no strong impact of changing institutions on performance. In this chapter the opposite relationship was found. A crisis resulted in change of policy choices and institutional reform. In this respect the relations in the model, as displayed in Figure 4.1 in Chapter 4, are different from what could be expected. Actors' behaviour and institutions do not change performance, but performance changes actors and institutions.

8.7 Conclusions

This chapter has analysed the institutional framework of New Zealand. Lijphart (1984) regarded New Zealand as an example of the majoritarian or Westminster model of democracy. This chapter shows that New Zealand political system has in some respects more characteristics of a consensus democracy than often assumed. The same holds for the interest groups system. New Zealand had certainly had some features of corporatism, but the system of arbitration has been removed and the role of trade unions has been weakened by the government.

From 1978 on, dissatisfaction grew over the electoral system that promoted a two-party system in which one of the two parties gained all political power. After two referendums – in 1992 and 1993 – the first-past-the-post system was replaced by the mixed-member proportional list system, which was applied for the first time in the 1996 elections. The introduction of a new electoral rule led to a multi-party system and the novelty of a coalition government. These institutional changes moved New Zealand closer to the model of consensus democracy. The degree of corporatism decreased because of neo-liberal labour market reforms. However, these changes were not successful for socio-economic performance. Although the inflation rate decreased to an acceptable level, the unemployment rate remained very high. Moreover, the growth of the GDP per capita in the period after 1985 was much lower than in the period 1971-1985.

Does this mean that the liberalisation of the economy and the cutting down on the welfare state were not worth the effort? Of course this is hard to prove since we do not know what would have happened if New Zealand was still a country with extreme governmental economic control on top of a welfare state. If New Zealand had continued on this road, the present situation might have been even worse. The fact remains that although New Zealand's export to the UK declined during the 1970s, the main part of today's export still is agricultural. New Zealand's isolated

position makes it extremely difficult to keep up with global economic developments. Especially when the closest economic trade partners – with the exception of Australia – are the Southeast Asian countries, which have a unique combination of high-tech industry and cheap labour. Any country would have a difficult time competing with these economies.

Several theoretical conclusions can be drawn from the New Zealand experience. It confirms that the institutions of majoritarian type of democracy allows for radical policy reform. New Zealand is a strong case where consensus democracy and corporatism developed in different ways. This shows that these institutions each have their own dynamics.

New Zealand moved more in the direction of liberal market economies, away from coordinated market economies. A neo-liberal economic policy was implemented by a social democratic government. The Labour party was more successful in removing opposition against the policy by the working class and trade unions than the National party could have been. The majoritarian character of the political system at that time made that the Labour party could afford to implement such an electoral risky policy. Dissatisfaction with performance did not immediately lead to loss of votes for the Labour party. A stronger development was the loss of trust in the political system. By making the electoral system more proportional, there was more support for government policy.

In New Zealand, socio-economic performance did have a strong impact on actors and institutions, but there is no strong impact of (change of) institutions on performance. New Zealand shows a clear connection between change of institutions and change of policy in order to change performance. Both were induced by dissatisfaction among voters. Institutions were changed due to preferences of voters, policy change due to preferences, institutions and policy change due to performance, but did institutions make a real difference for performance? The main conclusion of this chapter is that in New Zealand institutional change is not directly related to performance and that a combination of majoritarianism and pluralism was not conducive for genuine policy changes.

Notes

¹ In a television debate during the 1987 election Lange announced a referendum in his next term (Russell 1996: 240).

² An example of the chicken game is when two drivers drive toward each other. 'The one who swerves to avoid collision is the chicken and the one who keeps going straight is the winner' (Dixit & Skeath (1999: 111).

³ In 1992 1031257 people voted for change of the electoral system and in 1992 1032919 people preferred MMP over FPTP. While the proportion of the votes supporting electoral reform is lower in 1993, the absolute number is rather constant.

⁴ The seats are allocated by the method of Sainte Laguë. The number of votes for each party is divided by uneven numbers 1, 3, 5, etc. The 120 highest quotients determine the number of seats for each party.

9 PORTUGAL: DEMOCRATIC TRANSITION AND EUROPEAN INTEGRATION

9.1 Introduction

Portugal has been selected for a more detailed analysis for several reasons. In the comparative analysis of twenty democracies of Chapter 5, Portugal changed from performing worse to better than average. Generally speaking, the Portuguese socio-economic performance has been improving constantly since the 1974 revolution. Two events mark the recent political history of Portugal; the transition to democracy and the accession to the European Union in 1986. Both events are radical institutional changes that played a crucial role regarding the social and economic structure and that are of importance for socio-economic performance. During the transitional period of 1974-76 a semi-presidential political system was installed to combine the advantages of a strong and stable president with a parliament based on strong political parties.

Portugal is selected from the non-corporatist and non-consensus cluster. Performance in this cluster is the worst of all four clusters. Yet, Portugal has shown remarkable economic recovery. Also for this reason it is an interesting case to analyse.

9.2 The political system and party government

Before 1910, when the First Republic saw the light, Portugal was a monarchy. In 1926 the democratic republic was overthrown by a military junta. In 1932 António de Oliveira Salazar became Prime Minister and he installed an authoritarian regime that stayed in power until 1974. Salazar, a former Professor of Economics at the University of Coimbra, created a conservative corporatist system *Estado Novo* (*New State*). Only one political party was allowed. Under his rule national economy remained rural and underdeveloped.

In 1968 Salazar became seriously ill and his successor was Marcello Caetano. A large part of the army became less and less pleased with Portugal's colonial wars in Africa and organised in the Armed Forces Movement (MFA) they started a coup against the New State. Army officers were not only discontent with these wars in far away Africa, class differences within the army contributed to the revolt as well. Until the mid 1920s officers were recruited from the old aristocracy (Opello Jr. 1985: 66-67). Since the modernisation programme that begun during the 1920s officers were recruited from the middle class. These new officers behaved like the old aristocratic officers. Since the colonial wars of the 1960s, fewer officers were recruited from the middle class and these officers were gradually replaced by officers from the lower

The institutional dynamics of consensus and conflict

middle class. This caused class differences within the army. The new officers from the lower middle class clashed with the established officers and did not support colonial wars.

By the Carnation Revolution on 25 April 1974, army support to the dictatorship came to an end and without the use of violence the authoritarian regime was replaced by a provisional government. In 1975 the first elections were held for the constituent assembly of the Third Republic. During the turbulent period 1974-76 the Council of the Revolution transformed the political system into a democracy. In 1976 a Constitution was adopted and the first President was elected. The Constituent Assembly of 1975 and 1976 was concerned with three dimensions of government stability (Manuel 1996: 3): a stable regime, a dominant place for political parties and a moderating executive institution to protect the regime against excessive parliamentarism. This resulted in a presidential-parliamentarian hybrid, with both a prime minister and a president.

Since 1976, the president of the Portuguese Republic is elected directly. In the first years of the republic there was a tense relation between the President, the Prime Minister and the Assembly (Colomer 1996: 171). At the same time there also was a strong tension between the government and the communists who wanted to install a Soviet-style centralised socialist economic system. The first constitution of 1976 prescribed a transition to socialism through the collectivisation of the principal means of production (Colomer 1996: 194-195). This irreversible road to socialism was stricken from the constitution at revisions in 1982 and 1989.

Portugal's accession to the EU in 1986 has had an enormous impact on socio-economic development. First of all, it created new opportunities for Portuguese companies to import commodities from abroad and for foreign companies to invest in Portugal. Second, Portugal received large contributions from European structural funds to improve its infrastructure and to stimulate employment. Third, joining the EMU has put drastic constraints on Portuguese monetary, fiscal, social and economic policy to meet the criteria of the stability pact. In summary, since 1974 Portugal is a parliamentary democracy, part of the EU and OECD world.

The party system

The Portuguese electoral system is based on the principle of proportional representation, which is explicitly laid down in the constitution (Colomer 1996: 178). The Portuguese parliament, *Assembleia da República*, has only one chamber and is elected every four years. The seats are distributed according to the d'Hondt method, which means that larger parties are slightly advantaged and the number of parties is restricted to some extent. This incites parties to cooperate (Manuel

1996: 4). Several electoral coalitions, such as the Democratic Alliance (PSD and CDS) and the Democratic Unitary Coalition (PCP and Greens) were the result. The number of seats in the Assembly was reduced from 263 in 1975 to 230 in 1991¹.

Two parties dominate the political system: the social democratic Socialist Party (PS) and the conservative Social Democratic Party (PSD), formerly known as PPD (Popular Democratic Party). The PSD is in no respect social democratic notwithstanding the misleading name. Taken together both parties are good for 50 to 80 % of the votes. The PSD/PPD has played an important role in the stability of the government (Manuel 1996: 4). It is a centre to centre-right party supported by traditionalist and religious voters.

The Socialist Party was founded by Mário Soares, the first elected Prime Minister and President between 1986 and 1996. The PS is a moderate leftist party committed to both socialism and democracy. Several groups on both the left wing and the right wing of the party abandoned the party, because they considered the party's ideology to be too moderate.

The Communist Party (PCP), founded in 1921, was the only party that had always been an oppositional force against the dictatorial regime. The PCP is a radical communist party that rejects all forms of capitalism. The political importance of the PCP has declined since the late 1980s. Since 1991 the communists form an electoral alliance with the Greens in the Unitarian Democratic Coalition (CDU), but still exist as an independent party. The PS accepts the free market economy to some extent, while the PCP has always strived for complete nationalisation of the means of production. Nationalisation had been laid down in the first constitution of 1976 that was formulated after the revolution.

The support of the conservative Democratic and Social Centre, Popular party (CDS/PP) hovers between 4 and 16% of the votes. The party is conservative and Christian, more or less Christian Democratic. The party chose the label 'democratic and social', because in 1974 it was not politically fashionable to name a political party conservative or right-wing (Manuel 1996: 5). In 1979 and 1980 PSD, CDS and PPM (Popular Monarchist Party) cooperated in the Democratic Alliance (AD).

The distribution of seats among the parties in the Assembly is shown in Figure B.6 (Appendix B). The effective number of parties declined from around four in the mid-1980s to around three in the 1990s.

The President of the Republic is elected every five years with a maximum of two consecutive terms (Manuel 1996: 3). Because of the different time intervals and methods of electing, the majority in parliament and the government coalitions rarely coincide with the majority of parties that supported the winning presidential candidate (Colomer 1996: 179). The President has independent authority. The legislative

function rests with the Prime Minister and the Assembly (Manuel 1996: 3). The President has to monitor all government activities. In the first year of democracy, the President played a dominant role, while later the Prime Minister gained political power at the cost of the President. Portugal moved from a presidential political system to party government.

All parliamentary factions have a strong party discipline (Leston-Bandeira 2001: 142). Representatives usually vote according to party policy. Moreover, members of parliament are not allowed to make mid-term party changes.

There is no parliamentary election of the Prime Minister, but the candidate Prime Minister submits himself to a vote of confidence (Colomer 1996: 192). Table 9.1 gives an overview of the Prime Ministers and the parties that formed a coalition.

Table 9.1 Coalition governments in Portugal (1976-99)

period	Prime minister	Supporting parties	Type of government	Parliamentary support
1976-78	Mário Soares	PS	Single party minority government	40.68%
1978	Mário Soares	PS CDS	Minimal winning	56.65%
1978	Jorge Nobre da Costa		caretaker	
1978-79	Carlos Mota Pinto		caretaker	
1979-80	Lurdes Pintasilgo		caretaker	
1980-81	Francisco Sá Carneiro	PSD CDS	Minimal winning	51.20%
1981	Francisco Pinto Balsemão	PSD CDS PPM*	Surplus coalition	53.60%
1981-83	Francisco Pinto Balsemão	PSD CDS PPM*	Surplus coalition	53.60%
1983-85	Mário Soares	PS PSD	Minimal winning	70.40%
1985-87	Cavaco Silva	PSD	Single party minority gov.	35.20%
1987-91	Cavaco Silva	PSD	Single party government	59.20%
1991-95	Cavaco Silva	PSD	Single party government	54.00%
1995-99	António Guterres	PS	Single party minority gov.	44.80%
1999-	António Guterres	PS	Single party minority gov.	50.00%

Note * PSD, CDS and PPM formed the AD electoral alliance. In this respect, it was not a genuine government coalition created after the elections, but an electoral coalition created before.
Sources: Magone (1999); Woldendorp, Keman & Budge (2000); Leston-Bandeira (2001).

Between 1976 and 1982 the President played an important role (Colomer 1996: 193). The President had the power to nominate and dismiss the Prime Minister, the government and the Assembly. Presidential powers were reduced in the new Constitution of 1982. Portuguese political structure had some semi-presidential

features (Leston-Bandeira 2001: 140-141). The directly elected President nominates the Prime Minister and has the power to dissolve parliament (Colomer 1996: 194). Leston-Bandeira (2001: 140) characterises the political system of Portugal as a triangular organisation. The President's power is counterbalanced by the Prime Minister together with the government and the Assembly. Most of the time, the majority supporting the President varied from the parliamentary and coalition majority. During the consolidation of democracy, President's role was quite strong to prevent undermining of the young democratic system. Once democracy was stabilised, Prime Minister and his party government become more important.

Consensual character of the political system

What type of democracy is Portugal? Over the years, the effective number of parties has declined. The disproportionality of the electoral system has increased. However, the level of disproportionality in 1999 is about the same as in the first years of democracy. Figure 9.1 displays the degree of consensus democracy in Portugal.

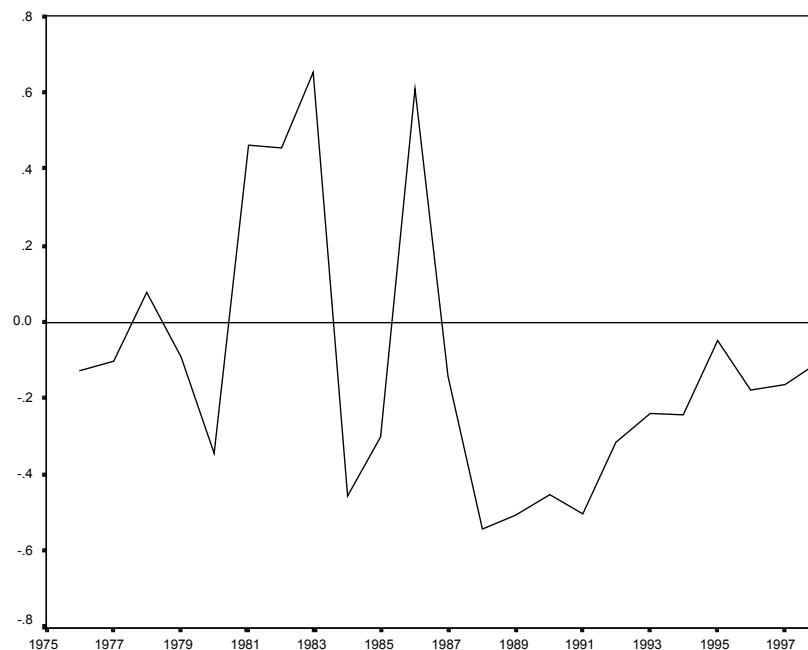


Figure 9.1 Degree of consensus democracy in Portugal (1975-98)

Most striking of Figure 9.1 is the high degree of variation through time. When viewed over the entire period between 1975 and 1998, the level of consensus democracy in Portugal fluctuates around zero. This means that when only the average of this index for Portugal over the entire period is taken into account, it may lead to a misunderstanding of the degree of consensus democracy. The average score between 1975 and 1998 is almost zero, but on several time points, scores are either much higher or much lower. Around 1984 for example the degree of consensus democracy was low. This marks the transformation of the political system from semi-presidentialism to parliamentary democracy. Since 1988, consensual institutions became increasingly important.

The most obvious explanation of this high variation is the fact that Portugal was consolidating its democratic system the first ten to fifteen years. There was no definitive power balance between the political actors yet. A threat to a newly established democratic system comes from electoral and parliamentary fragmentation and a high number of parties. Having so many different parties, it becomes increasingly difficult to form coalitions. After a long period of dictatorial rule, most political groups obviously seek parliamentary representation. In Spain for example electoral fragmentation was extremely high. Such a high fragmentation did not occur in Portugal. First of all, the PCP is the only pre-1974 party. All other parties were founded after the revolution. Second, Portuguese society is rather homogeneous. Although wealth is not equally distributed over the regions, regionalism is not strongly developed. And because industrialisation was never developed under Salazar and Caetano's rule, there was no strong class-consciousness to dominate party structures. PCP is still an exception, being one of the few communist parties in the world that survived the 1990s. The existing differences, such as centre versus periphery and socio-economic class, did not result into a highly fragmented political landscape. Third, the number of ideological issue dimensions is not very high. Most salient dimensions are socio-economic class, regime support and foreign policy (Lijphart 1999: 78-79). Finally in almost every election, alliances of parties were created in order to maximise votes. This had a limiting effect on the number of participating parties.

The type of government contributed considerably to the majoritarian character of the Portuguese democratic system in several time periods. The coalition types that occurred most frequently were minority governments and minimal winning coalitions. The only surplus government was the cabinet led by Prime Minister Francisco Pinto Balsemão between 1981 and 1983. The young democracy started with a single party minority government, which was the first cabinet led by Mário Soares in 1976.

The majoritarian character of the political system changed in the 1980s. Leston-Bandeira (2001: 144) states that majoritarian criteria replaced consensual ones in deciding on the distribution of rights and responsibilities in parliament. The proportionality rule has lost importance in parliament. The larger parliamentary groups gained more control over the political agenda.

9.3 Organised interests

Some elements of the former authoritarian corporatism survived in the democratic era. Both employers' federations and trade unions are organised alongside with the government in the Permanent Council of Social Negotiation, CPCS (Colomer 1996: 195; Barreto & Naumann 1998). On the other hand however, industrial relations in Portugal are strongly polarised. Major differences exist between employers and unions and within the labour movement itself. Some labour movement groups do not only aspire the democratisation of class relations but the elimination of capitalism as well (Barreto & Naumann 1998: 395).

The revolutionary process in Portugal influenced the system of industrial relations in the first decade. The first years were a period of political radicalisation and militant action. Instead of moving towards a liberal democracy, a socialist society seemed nearer. Communists and radical socialists dominated the labour movement. Unions held considerable power. Employers' organisations had no intention to reach agreements with these unions (Barreto & Naumann 1998: 402). The relation between unions and employers was conflict driven.

Unions were able to capitalise their power by demanding higher wages and social security benefits. The consequences for socio-economic development were bad. Increasing wages pushed inflation rates and unemployment rose as well. In the 1980s, mass unemployment restricted union influence. At the same time, the state pulled out of the process of collective bargaining. In 1984 national bargaining was institutionalised in the tripartite CPCS, which came to play a more important role. At the same time the new Prime Minister Cavaco Silva started a neo-liberal market policy after Portugal had joined the EU. This caused considerable changes in the political climate. Installing a socialist regime appeared no longer an option. Portugal wanted to be in step with other Western European countries. The Portuguese wanted a stable democracy, embraced the free market and worked on more peaceful industrial relations. In Figure 9.2 the scores of Portugal on the corporatism index are displayed.

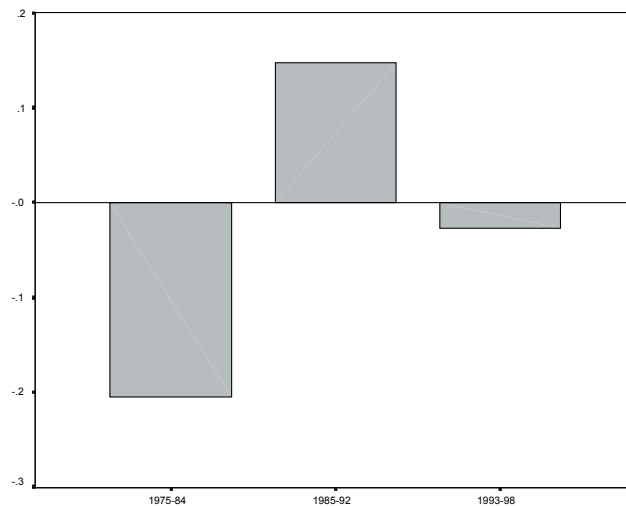


Figure 9.2 Index of corporatism in Portugal

The average over the entire period fluctuates around zero, as is the case with the index of consensus democracy. By comparing the scores at different time points, variation through time can be acknowledged. Figure 9.2 shows an increase of corporatism in the 1980s and a decline in the 1990s.

In 1990 an important agreement was reached by all CPCS members with the exception of the communist trade union CGTP (Barreto & Naumann 1998: 420). This Economic and Social Agreement was a major step in giving more negotiating autonomy to unions and employers' organisations and the introduction of conciliation and arbitration mechanisms. However, this agreement did not end the antagonism between some radical unions and employers' organisations.

The employers' organisations are organised according to sector (Barreto & Naumann 1998: 406). CIP for industry, CCP for trade and services and CAP for agriculture. The major labour unions are CGTP and UGT. Because the Communist Party played an important oppositional role in the fight against the dictatorial regime, it was able to gain control over the labour movement directly after the revolution. This is in contrast with the PS, which totally disappeared and re-entered the arena in 1973 as a political actor. All communist unions were organised in the *Intersindical*, which later became the CGTP. *Intersindical* monopolised workers' representation. This provoked a reaction of the other unions, organised in the UGT.

When looking at the measurement of the degree of corporatism as defined in Chapter 3, it clearly acknowledges the dynamic development. In the period after the revolution, the tense relation between capital and labour is reflected in a negative

score for corporatism. Rapprochement of unions and employers' organisation in the late 1980s/ early 1990s and the Economic and Social Agreement is found back in a positive score in this period. In the 1990s, trade unions have become weaker organised and the coverage rate of wage bargaining has declined. This is reflected in a reduction of the degree of corporatism.

9.4 The development of socio-economic policy in Portugal

The first post-revolution years not only put Portugal up to a political test but most of all to an economic challenge. Salazar's heritage was a bad economic situation. One third of Portuguese employment was in agriculture². Infrastructure was underdeveloped. Obviously, the installation of a democratic regime in 1974 did not bring everyone prosperity immediately. In the first few years the real wages per capita dropped (Manuel 1996: 75). Together with increasing unemployment, the situation seemed disastrous. However, from the 1980s on the situation strongly improved, largely due to the radical policy reforms of the Cavaco Silva government.

The inflation rate in the first years was staggering, but steadily decreased to near EU average in the 1990s. The stabilisation of the exchange rate of the Portuguese Escudo contributed to price stability, together with the accession to the EU in 1986. Until the beginning of the 1990s Portugal saw a strong economic growth. This changed into negative growth in 1992-93, when European recession hit the Portuguese economy (European Commission 1997: 1). Figure 9.3 shows the development of the GDP per capita of the four poorest EU members as a percentage of the EU average.

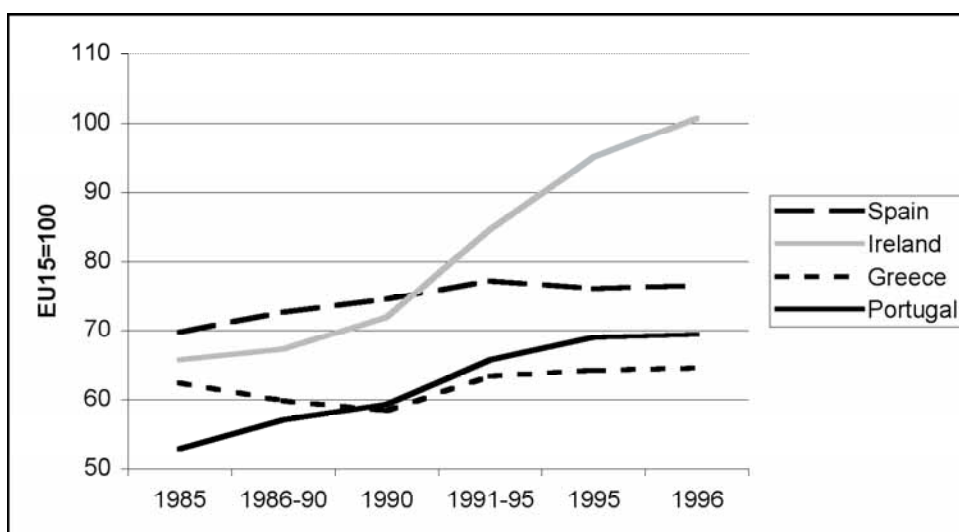


Figure 9.3 GDP per capita as % of EU-average

Ireland had the strongest growth. In the late 1990s Ireland's GDP per capita overtook the EU average. Portugal's development had been stronger than that of Spain and Greece. By overtaking Greece, Portugal no longer was the poorest EU member.

How can the economic success of Portugal be explained and how is it related to the institutional structure of the political system? Several factors have contributed to the economic development: joining the EU, which gave access to large amounts from the structural funds to Portugal; joining the EMU, which required a stable monetary and fiscal policy; the policy reform by Cavaco Silva; the changing labour market, in particular the increase of female labour participation. Figure 9.4 gives an overview of some of the major economic indicators in Portugal the past 35 years.

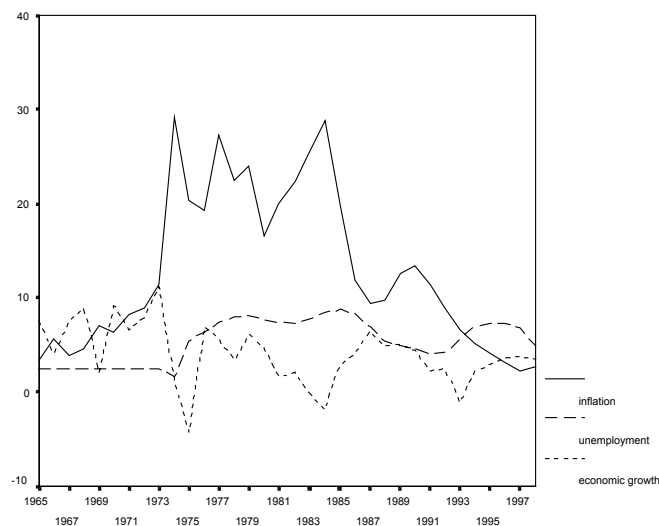


Figure 9.4 Socio-economic performance in Portugal

Figure 9.4 makes the impact of the 1974 revolution clearly visible. In the first years, inflation exploded to 30%, economic growth was negative and official unemployment rates were increasing. Only after 1986, all these indicators turned into a positive direction. Inflation, measured by the consumer price index, decreased to a reasonable level, unemployment decreased and economic growth remained high. The negotiations in the 1980s to join the EU urged Portugal to adjust its economic system to European standards. 1986 marked a major institutional change, when Portugal became an EU member.

EU structural funds enabled numerous investments in infrastructure in particular. Between 1989 and 1993, Portugal received 8.5 billion Euro; between 1994-99 19.2 billion Euro and between 2000-09 19 billion Euro. Joining the EU gave Portugal

access to an enormous market. Export and import increased, especially to and from Spain. Before joining the EU, the relation with its sole neighbour country was far from good. Both countries basically ignored each other. Nowadays they are important trading partners.

European integration had a huge impact on Portugal's development, not only because of structural funds and the immediate access to a large market. Another crucial effect has been the linking of its monetary policy to the EMU. Since 1992, the Portuguese Escudo was linked to the German Mark. And in 1999, the Euro was introduced. This made a large contribution to internal and external price stability. But at least as important was that joining the Euro-zone put heavy constraints on fiscal and monetary policy and on governmental budget discipline of the government. Portugal had far less trouble to meet the Maastricht criteria than for instance Germany.

The labour market has changed since the revolution. In 1960, a large proportion of total employment was found in agriculture. This share has declined drastically, but it still ranks among the highest in the EU. The persistence of the farm sector has moderated Portugal's unemployment. During worsening economic periods, people went back to the country for work.

A second major change of the labour market is the increase of female labour participation. During Salazar's regime women were no part of the labour market. Women were expected to take care of their family. They needed their husband's permission to take a job, to go into higher education or to get a passport (Economist 2000: 5). Female labour participation rate has increased from one of the lowest in Europe, 20% in 1960, to around EU average, 63% in 2000. The expenditures on labour market policy in Portugal were comparatively high, second highest after Sweden (Lang 2000: 73). In contrast to Spain, Portugal was able to keep unemployment rates under 10%.

Until 1985, there were many short-lived coalition governments. In 1985, the PS-PSD coalition was terminated because Prime Minister Soares wanted to run for president (Manuel 1996: 58). In 1985, the first PSD government, led by Cavaco Silva, was only supported by a minority in parliament. But in 1987 the PSD received a majority of the votes. This was the beginning of a period of political stability. The first ten years of democracy were used to find a balance between all political actors. The domestic socio-economic situation improved in the mid 1980s. Between 1987 and 1995, the government was supported by a single party, the PSD, with a majority of the seats in the Assembly. This gave the government more political control. In this period, the Portuguese political system was at its most majoritarian, as can be seen

in Figure 9.1. The effective number decreased and the parliamentary support of the coalition became smaller. In 1986 Soares became the first elected non-military president of Portugal.

Prime minister Cavaco Silva promised to liberalise the economy. He wanted to reduce state involvement and increase private investment in the economy (Manuel 1996: 64). Shares of many state-owned companies were sold. Together with the EU structural funds money, the infrastructure was improved. In this period, economic growth in Portugal ranked among the highest in Western Europe.

9.5 Actors, institutions and socio-economic performance

This section focuses on how the role of actors relates to institutional change and changing socio-economic performance. Creating democratic stability and stimulating socio-economic development were the main goals since the regime change of 1974. The Portuguese road of institutional change was mainly conflict-driven instead of cooperation and consensus-based.

Actors

The main political parties in Portugal are the social democratic PS, the centre-right PSD and the conservative CDS. Governments always consist of one or two of these parties. The communist PCP does not play a role with regard to party government, but it is a strong force at least outside parliament in mobilising opposition against ruling governments. In particular during the first post-revolutionary period, the communists had a strong support in certain areas and among certain groups of voters. However, in shaping socio-economic policy-making, only the three largest parties are of importance.

After the revolution, socio-economic actors were quite militant. Unions attempted to change the economic structure through nationalisation. Firms on the other hand, tried to protect their possession of the means of production. The potential conflict between workers and capital was moderated by the political parties. In particular the social democratic PS and its leader Soares played an important role in the consolidation of the democratic system.

The social democratic party and the unions were operating at two different levels. Their voters and members demanded a radical social, political and economic revolution. At this electoral level, it was important that they were seen as representatives and as credible among their support. At party government level they tried to come to cooperation with the other parties. Radicalism and polarisation at electoral level was mitigated by cooperation at party government level.

Institutions

In the post-revolutionary period the president played a strong role. The task of the president was to secure the political system and to give the democratic institutions time to establish themselves. Democracy was under pressure by both radical left-wing and right-wing forces. During the 1980s the role of the president was weakened. Portugal developed from a semi-presidential to a parliamentary democracy. The political system became less consensual and more majoritarian.

Consensus democracy

From a comparative perspective, Portugal is not a typical case of consensus democracy. Consensual institutions, such as oversized coalitions, certainly contributed to a relatively peaceful transition to democracy. For the democratic system, stability was the first priority. It was therefore important that all groups supported the political system. Consensus democracy in Portugal had a spill over effect on socio-economic performance. By stabilising the political system, democratic representations and free elections were secured. In the 1980s the possibility of transforming the economic free market structure into a socialist plan economy, disappeared. Once the political and economic system was stable, foreign investors had a renewed interest in participating in Portuguese firms. Establishment of a stable democracy and a well-functioning free market economy attracted international capital and avoided export of national capital. Added to European investments from the structural funds these factors stimulated economic growth.

Portugal shows that consensus democracy contributes to political stability and support for the political system. A stable political system had a spill over effect on socio-economic policy. This means that consensus democracy did not only have a positive effect on democratic performance, but also on socio-economic performance. The effect of consensus democracy in Portugal must not be overestimated, since the degree of consensus democracy is quite modest. From a static point of view, Portugal is actually a non-consensus democracy, but the dynamic developments indicate an increasing relevance of consensus democracy in the first ten to fifteen years after the revolution. Once the political system was stabilised and economic development improved, the political system became more majoritarian.

Corporatism

Portugal had a tradition of an authoritarian form of corporatism, which can be linked to fascism and Salazarism. This type of corporatism aims to abolish every possible conflict between workers and firms. Since it operates in a non-democratic political system without any right of freedom of organisation, this type functions entirely

different from the type of neo-corporatism that is discussed in this thesis. Portugal's system of labour and economic relations under Salazar was under total government control that possessed monopoly of organisation. The goal was not a voluntary cooperation between different socio-economic classes, but a planned and state-controlled economy. After the regime change, this authoritarian corporatist tradition disappeared. The relations between socio-economic classes were certainly not based on consensus and cooperation but were conflict driven. In the years after the revolution, workers' organisations tried to take over political and economic power.

It took some time to establish a democratic system and a free market economy. In this period the polarisation between workers and firms diminished which contributed to more peaceful industrial relations. In the late 1980s, early 1990s, the degree of corporatism increased. And in the 1990s several social pacts were made in Portugal, like in other European countries – such as Italy and Ireland - in the light of European integration and the stability pact of the EMU. The pacts can be seen as additional institutional arrangements that were developed between actors to affect policy outcomes. These pacts aimed to moderate the negative external effects on domestic policy-making (Ventura Campos Lima & Naumann 1997; Campos Lima & Naumann 2000).

Linkages consensus democracy and corporatism

Since Portugal does not show a strong institutional pattern of consensus democracy and corporatism, a clear connection is not to be expected. Interest groups have no strong links with political parties and vice versa. There is a slight exception for the working class. Radical workers are organised in trade unions and member of the communist party. Since the revolution there is close cooperation between the General Confederation of Portuguese Workers CGTP and the communist party (van Biezen 2001: 97). These groups are concentrated in certain areas in and around Lisbon and in the South of Portugal. Rising wages for workers and the decline of the blue-collar employment weakened their position.

There was some increase of consensus democracy and corporatism in the 1980s and some decline in later years. In the first period there was slightly more consensus democracy and the second period slightly more corporatism. In the last years, however both consensus democracy and corporatism declined. Corporatism declined as a structural feature, but revived in the form of several social pacts in the 1990s.

Socio-economic performance

The events of 1974 threw the Portuguese economic system into a profound crisis (Brandão de Brito 1998: 109). The main financial-economic groups and sectors were nationalised. The awareness of an economic crisis had an impact on actors' preferences and institutions. The social democratic PS avoided a further polarisation. Political institutions became more consensual. Democratic transition contributed to economic prosperity. From a comparative perspective the gap between Portugal and other European countries is becoming smaller (see Figure 9.3).

In the first years after the transition consensus democracy was more important in establishing the democratic and economic system. Later the degree of corporatism increased. Cooperation between trade unions and employers' organisations became stronger. In the first years economic growth and employment were the main priority, while in later years, social policy and the welfare state were developed. When related to institutions, this leads to the conclusion that consensus democracy is more important for political and economic performance than corporatism.

International context

International factors also played a crucial role in Portugal's economic development. The EU invested substantial amounts of money in the Portuguese economy and facilitated trade with other European countries. Participation in the EMU did not only constrain Portuguese financial and economic policy; budget control limited the government's budget and the expansion of the welfare state.

Two phases of socio-economic policy-making

The financial crisis of 1981-82 – the rise of the strong US Dollar, the new oil shock, increasing interest rates - led to an agreement between the IMF and the *Bloco Central* government, a coalition of PS and PSD (Brandão de Brito 1998: 110). This meant that international financial-economic developments forced national actors to create additional institutional arrangements. This is an example of the impact of a severe crisis on preferences and strategies of actors and as a result leading to changing or adjusting institutions.

There is no evidence that consensus democracy and corporatism were the institutions that brought economic prosperity, employment and social welfare in Portugal. However, increasing consensus democracy and corporatism seems to coincide with better socio-economic performance, although it must be emphasised that Portugal is neither typical consensus democracy nor a corporatism type of country. The coincidence of both institutions and performance can be explained by the maturing of the democratic and economic system since the regime change of 1974.

9.6 Socio-economic problem-solving

In the post-revolution era, Portugal has had at least two main goals: stabilising its democratic political system and reforming its economic structure. Similar to the Netherlands and New Zealand actors in Portugal were preference driven. The actors in Portugal realised the urgency for change of their behaviour and for development of new institutional arrangements. In other words, the revolutionary period can be understood as a crisis where transition to democracy and economic development were at stake.

Hence, Portugal shows a pattern of actors adapting their behaviour and changing institutional arrangements in order to enhance democratic stability and to improve socio-economic performance. In the first post-revolution years, Portugal relied on consensual institutional arrangements. Consensus democracy excels in finding a broad support from relevant actors. And particularly during a period in which the democratic system was not fully established this broad support was needed. Portugal shows that consensus democracy can function well in the developing phase of a democracy. Of course, it was not just because democracy was young that broad consensus in the actors' behaviour was important. These actors were also strongly divided about the perception of what policy choices had to be made. These differences were a serious threat to the political system. Consensus democracy contributed in securing democratic stability in the first post-revolution phase. The rules of the new political system were not yet fully established and the actors were not yet sure about their political strength.

From the mid-80s on, after the period of establishing democracy, the Portuguese government focused more on socio-economic development. The global socio-economic crisis had an impact on Portugal as well. Apart from fighting this cyclical crisis, the economy needed structural reforms. Interestingly, this change in socio-economic policy was accompanied by an institutional change. Since democratic stability was no longer at stake, socio-economic reform had top priority. During the 1980s the institutional structure shifted towards a more majoritarian democracy. Broad support and consensus were less important, changes in socio-economic policy were easier to achieve without extensive consultation. The conservative government implemented a neo-liberal socio-economic policy that was not supported by the leftist parties at all. At this stage, Portuguese democracy was consolidated enough to neglect interests of the communist party. In sum: first consensus democracy was developed to secure the stability of the political system and second Portugal shifted towards majoritarian democracy for economic reform.

Portugal shows an interesting pattern of changing institutional arrangements and actors' behaviour as a reaction to a situation of crisis and revolution. Moreover, these changes have been effective in securing democratic stability and changing the national economic structure. In this respect the model of Figure 4.1 in Chapter 4 helps us to understand how the interaction between the actors' behaviour and institutional change contributed to changes in policy choices and performance.

9.7 Conclusions

In the period between 1975 and 1986 Portugal's political system was characterised by serious conflicts. There were strong tensions between the anti-system Communist Party and the other parties and between the President and the government (Colomer 1996: 207). Removing the socialist goals from the constitution and limiting the power of the President contributed to a stable political system from the mid 1980s on. The character of the Portuguese political system was most majoritarian between 1987 and 1995. The Cavaco Silva government was supported by the PSD, which held a majority of the seats in parliament.

Socio-economic policy has developed as well. Most striking is the shift of the policy goals. During the first post-revolution years, several political groups and unions were focused on transforming the former authoritarian corporatist regime into a socialist economy. Communists and radical socialists dominated the labour movement and had a strong impact on the political agenda. Many companies were nationalised, scaring off many foreign investors. When Cavaco Silva became the PSD Prime Minister the option of installing a socialist state came to an end. Completely in line with the political trend in other countries at that time, his government started a neo-liberal policy. Companies were (re)privatised and the power of the unions was restricted. During the 1990s, this policy appeared to be successful. Mass unemployment disappeared and the inflation rate stabilised at an acceptable level. Portugal met the criteria of the stability pact and as a result was allowed to join the EMU from the start in 1999.

Finally, there were strong tensions between labour and capital. After World War II no other Western European country came as close as Portugal to becoming a socialist state. In the first post-revolution years, trade unions were powerful and demanded higher wages. This frustrated economic development. It took a long time before unions and employers' organisations were prepared to cooperate in collective wage bargaining, like they did in 1990 when they agreed on an important pact.

At least three major institutional changes have occurred, which have had an effect on political stability and economic development. First, a new political system had to be built up after the 1974 revolution. The new semi-presidential system combined the advantages of a strong democratic elected head of state with political parties that were deeply rooted in society. This hybrid political system contributed to a successful transition to democracy. The character of the political system shifted several times from more consensual to majoritarian and back. In the first decade, the political system was predominantly consensual whereas the second decade was predominantly majoritarian. Consensus was essential to build up the democratic system and to prevent that radical groups, such as the communists or the ultra-conservatives, would no longer support the democratic regime. The success can be illustrated by the fact that terrorism was limited to a single group that was active around 1980. In the second phase of democratisation Portugal moved towards a majoritarian democracy. A powerful single-party government pushed through several drastic policy reforms.

Second, the accession to the EU and the EMU was very crucial to the economic development of Portugal. There is absolutely no doubt that this led to huge investments in infrastructure, opened the market and stabilised the national currency. The fact that unemployment remained high in Spain, even after joining the EU, illustrates that integrating into Europe was not the sole explaining factor for Portugal's success. It was also due to a more active labour market policy.

Third, the relation between workers and employers was very tense during the early years. It took a long time before a rapprochement between labour and capital was realised. The industrial conflicts harmed economic development. However, there is no proof that more peaceful, industrial relations were the main explanation of the prosperous economic growth of the 1990s.

Based on this analysis of Portugal, the conclusion can be reached that consensus democracy may be more important in realising support for a young democratic regime. Majoritarianism may be useful to enforce strong policy reforms. Consensus democracy contributed to political stability which stimulated economic performance. Corporatist institutions did not play an important role for socio-economic performance.

Notes

¹ The distribution of the electoral votes and seats in parliament between 1975 and 1999 can be found in Figures B.5 and B.6 in Appendix B.

² The share of agricultural employment in total employment decreased from 35% in the 1960s to almost 10% in the early 1990s (Bover, García-Perea & Portugal 2000: 391).

10 SWEDEN: FROM MODEL TO MUDDLING

10.1 Introduction

Sweden has been subject of many studies due to its generous welfare state and its successful system of industrial relations: the Swedish model. It has served as both a scientific and political model to understand how a combination of strongly organised interests, a strong social democratic party and a neo-Keynesian economic policy can contribute to successful macro-economic policy-making. The model appealed to politicians and scholars in political science and economics alike (Milner 1989; Castles 1978; Korpi 1983; Armingeon 1983; Esping-Andersen 1985; Therborn 1989; Katzenstein 1985; Lane 1991; Gruisen 1996; Ryner 2002; Whyman 2003).

Sweden is selected here for its variation of both economic performance (from performing better than other countries until the 1980s to declining performance in the 1990s) and its institutional context (from a corporatist model to decentralisation of wage bargaining). Swedish corporatism has been regarded as an explanation for the good performance until 1990, when unemployment was still much lower than in other Western countries. Sweden however has changed in two respects. The system of corporatism has decentralised wage bargaining (Kjellberg 1998; Pestoff 2001; Fulcher 2002) and in the 1990s the Swedish model of national wage bargaining seemed to have vanished. Surprisingly, at the end the 1990s, after the 1998 elections, social partnership re-appeared on the political agenda (Pestoff 2002). In the 1990s Sweden experienced a real economic crisis, with unprecedented inflation and unemployment rates. Did the decline of Swedish corporatism contribute to changing socio-economic performance?

Sweden belongs to the cluster where consensus democracy and corporatism go together. Sweden has a long tradition of cooperation of workers' and employers' organisations at national level. Its association with consensus democracy is less obvious.

This chapter argues that until the 1980s corporatist institutions in Sweden correlated with better socio-economic performance. In the 1990s both corporatism and socio-economic performance declined. Sweden is a case where a socio-economic crisis urged actors to adjust institutions. The new institutional road of decentralising industrial relations cannot be considered already successful for socio-economic policy. Sweden developed from a model of national corporatism to muddling through, finding a new institutional structure that is suitable for restoring its former excellent socio-economic performance.

10.2 The political system and party government

As is the case in other Scandinavian countries, the political system of Sweden has characteristics of both majoritarian and consensus democracy. It has a single dominant party – the social democratic party - which is in power almost continuously, and a culturally homogeneous population. Parliamentary power is not very fragmented; the party system is not divided into many cleavages. The electoral system is proportional, despite the electoral threshold of 4%. Although minority governments are formed, they carry the support of non-coalition parties. The style of decision-making is a mix of adversarial and compromise politics (Lane & Ersson 1997: 255). The degree of consensus democracy and corporatism in Sweden does not strongly deviate from the other Nordic countries (see also Figure 4.2).

The Swedish political system has two large blocs of political parties. One bloc consists of the leftist parties, of which the social democratic party is the dominant actor. The other bloc is the bourgeois bloc, which is more divided. At least three parties compete for a dominant role in the conservative opposition: the conservative Moderate Party, the agrarian Centre Party and the liberals. In recent years, the Christian Democrats have gained electoral power. Lane (1991: 1) argues that the Swedish model can be characterised as a compromise or a hegemony model. Compromise is needed between the socialist camp and the bourgeois parties, between the rightwing parties to form a strong opposition, between the leftist parties to support the social democratic government and between labour and capital. At the same time, the Swedish model is characterised by a strong social democratic hegemony.

For a long time the main division in society was the same as reflected in the party system and industrial relations: namely working class versus capital (cf. Milner 1989). Since the 1960s, this division has lost its predominance. Employment in the service sector exceeded industrial employment. And because of the rapid growth of the Swedish welfare state, many people – women in particular – worked in the public sector. As a consequence many people did not feel an exclusive bond with organisations representing the blue-collar work force.

In 1995, Sweden joined the European Union but it does not to participate in the Economic and Monetary Union. European integration has influenced both the economic and political system of Sweden (Algotsson 2001). Due to European integration firms felt less constrained by national political solutions and economic bargains (Pestoff 2001: 12). Firms already lost interest in the Swedish model of collective bargaining and are focused either on the international arena or at the

sectoral or firm level. National political and economic institutions lost importance. European integration combined with the process of decentralisation diminished the possibilities of the central government to steer the economy.

The party system

Sweden has a list proportional electoral system. The proportionality of the electoral system is diminished by a 4% threshold. The goal of this threshold is to avoid excessive fractionalisation (Lane & Ersson 1997: 257). The largest party in Sweden is the social democratic *Sveriges Socialdemokratiska Arbetarepartiet* (SAP). Ever since 1935 this party has obtained the largest share of the votes and seats. In 1968 it won an absolute majority of the seats in parliament, *Riksdag*. The *Moderata Samlingspartiet* (MSP) is the largest conservative party. From 1991 to 1994 it was the governing party under leadership of Carl Bildt. It was the first non-socialist government in a long time. Since 1998, the third largest party is the left-wing *Vänsterpartiet* (VP). The fourth party is the Christian Democratic party *Kristen Demokratisk Samling* (KSP). They gained considerable political power in the 1990s, while the centre party (*Centerpartiet* CP) and the liberals (*Folkpartiet* FP) lost both seats and votes. The smallest party to gain more than the required 4% of the votes in 1998 was the environmental party (*Miljöpartiet de Gröna*). All other parties failed to reach the threshold and are not represented in parliament. The distribution of the votes from 1964 can be found in Figure B.7, in Appendix B.

The Swedish party system has two blocs which both receive a stable share of votes. Votes mainly shift between parties within each bloc. Changes are smallest in the leftist bloc. The social democratic party lost some of its support to the *Vänsterpartiet* and the Greens. Volatility has been larger in the conservative bloc. Both liberals and centre party lost votes to the conservative moderate party and the Christian Democrats.

The high effective number of parties indicates that the impact of the threshold on the electoral and parliamentary fragmentation is rather small. The effective number of parties in parliament is almost equal to the effective number of electoral parties. Furthermore, the effective number of parties increased over time. The party system developed from 3 to 3.5 parties to 4 to 4.5 parties. The increasing number of effective parties is caused by the success of several new parties in the 1990s. Until 1988, Sweden traditionally had five political parties. Social democrats and communists on the left side and moderates, liberals and agrarians on the right side. In 1988, the Greens won seats in parliament for the first time as did the

Christian Democrats and the xenophobic New Democrats in 1991. While the New Democrats disappeared from the parliamentary arena in 1994, the Greens and Christian Democrats repeated their success in 1998.

Swedish party system lacks a strong multi-dimensionality (Arter 1999: 146). Most parties can be ordered on a traditional socio-economic left-right scale. At the left, we find the former communist party - now left party - and the social democrats. At the right, the liberals and moderates. The agrarian party – now centre party - can be placed in the middle of the political spectrum. This socio-economic division dominates the Swedish political landscape; other dimensions play a less pronounced role. There is division between urban and rural separating the agrarian party from the other parties. Since the 1980s, environmental issues have entered Swedish politics. Most of the parties tried to incorporate these new issues in their political programme. Another new dimension is the Swedish role in European integration. While most parties support joining the EU, the Greens and the left-wing Vänsterpartiet are strongly opposed to the EU in its present form.

Despite some of the shifts described above, the Swedish party system is one of the most frozen systems in the world, in terms of Lipset & Rokkan (1967). The present party system still resembles that of 1922 (Bergström 1991: 9). Although several new parties have entered the political stage, the social democratic party still dominates Swedish politics in many respects.

Table 10.1 Coalition governments in Sweden (1964-98)

period	Prime Minister	Supporting parties	Type of government	Parliamentary support
1964-68	Erlander, T.	SAP	Single party minority government	29.5%
1968-69	Erlander, T.	SAP	Single party minority government	32.6%
1969-70	Palme, O.	SAP	Single party minority government	32.6%
1970-73	Palme, O.	SAP	Single party minority government	42.5%
1973-76	Palme, O.	SAP	Single party minority government	44.6%
1976-78	Fälldin, T.	CP, FP, MSP	Minimal winning	51.6%
1978-79	Ullsten, O.	FP	Single party minority government	11.2%
1979-81	Fälldin, T.	CP, FP, MSP	Minimal winning	50.1%
1981-82	Fälldin, T.	FP, CP	Multi party minority government	29.2%
1982-85	Palme, O.	SAP	Single party minority government	47.6%
1985-86	Palme, O.	SAP	Single party minority government	45.6%
1986-88	Carlsson, I.	SAP	Single party minority government	45.6%
1988-90	Carlsson, I.	SAP	Single party minority government	44.7%
1990-91	Carlsson, I.	SAP	Single party minority government	44.7%
1991-94	Bildt, C.	MSP, FP, KDS, CP	Multi party minority government	46.7%
1994-96	Carlsson, I.	SAP	Single party minority government	46.1%
1996-98	Persson, G.	SAP	Single party minority government	46.1%
1998-	Persson, G.	SAP	Single party minority government	37.5%

Source: Woldendorp, Keman & Budge (2000).

Table 10.1 shows the Swedish prime ministers from 1964 on and the parties supporting the governments. Most governments are led by a social democratic Prime Minister. Only between 1976 and 1982 and between 1991 and 1994 was the Swedish government in conservative hands. Governments are stable, hardly ever they break up before elections (see Woldendorp, Keman & Budge 2000).

An important feature of Swedish governments is the high proportion of (single party) minority cabinets. Since 1965, 67% of the time a single minority government was in power and 14% of the time a multiparty minority coalition. This means that most of the time the government had no formal majority in parliament. In order to govern a minority government depends on opposition party support. This leads to the typical Swedish politics of seeking compromise and consensus. The social democratic party seems to have a dominant position in both parliament and government. Because they lack a parliamentary majority, they are forced to cooperate with opposition parties. Until 1991, there was no viable alternative coalition. Figure 10.1 shows the degree of consensus democracy in Sweden from 1965.

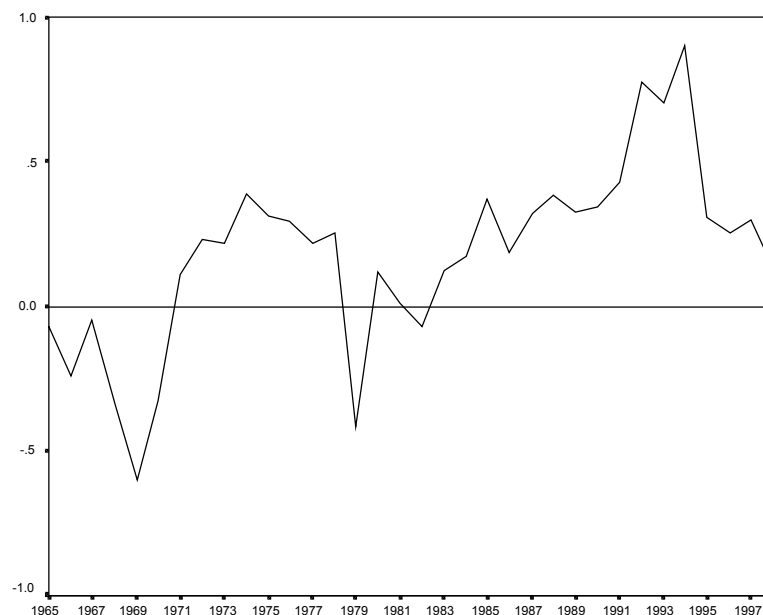


Figure 10.1 Degree of consensus democracy in Sweden

Although Sweden is taken from the consensus democracy and corporatist cluster, it cannot be considered a very strong case of consensus democracy. This is mainly due to the large proportion of minority governments. This type of governments

is based on a small formal parliamentary support. This does not coincide with the principle of broad and oversized coalitions, which is a feature of consensus democracy. Nevertheless, over the past 35 years the degree of consensus democracy has slightly increased, mainly due to the increasing effective number of parties. Moreover, Swedish electoral system is very proportional. The fading hegemony of the SAP and the increasing effective number of parties contributed to the urgency of consensus in the Swedish political system. Since the mid 1990s the degree of consensus democracy is above average.

10.3 Organised interests

Sweden has been an agrarian society for a long time. Several developments have launched Sweden into the modern age. Employment shifted from farming to industry, people moved from the country to the cities and new ideologies became popular (Micheletti 1991: 146). An agrarian society transformed into an industrial society, with specialised workers who rely on companies and urban structure. Between 1850 and 1920 many social organisations were founded that came to play an important role in the Swedish system of interest groups representation (Castles 1978).

In the 20th century, interest groups became very important in Swedish policy formation and implementation. Political decision-making was not isolated from interest groups, but these groups were strongly intertwined. Swedish corporatism is characterised by dialogue and mutual respect rather than by class-conflict (Micheletti 1991: 148). Moreover, this 'dialogue between opposing political actors became a Swedish institutional tradition' (Micheletti 1991: 148). What began as a mode of operating between actors, resulted in a model, the basis of neo-corporatism in a mixed economy, which other countries considered to adopt in order to reconstruct their own institutional structure according to this Swedish model.

After World War II, traditional blue collar workers organisations lost importance. Many young workers found a job in the service sector instead of the industrial sector, female labour participation increased even further and due to the increasing welfare state, the public service sector became very important.

The major workers' organisation is *Landorganisationen* (LO). This federation of trade unions represents blue-collar workers. The *Svenska Arbetsgivareföreningen* (SAF) is the most important employers' confederation. Both actors have played a dominant role in Swedish industrial relations.

The heydays of the Swedish model were characterised by self-regulation and centralised bargaining. The willingness of the Swedish social partners to cooperate was unique to Western mixed economies. At the same time, the government was prepared to give social partners certain autonomy to make their self-regulation possible.

This model of compromise and consensus did not come overnight. The 1920s and 1930s were plagued by serious conflicts between labour and capital. Strikes vexed this pre-war period (Kjellberg 1998: 81). In the second half of the 1930s an agreement was reached stating that the social democratic government would not challenge the capitalist nature of production (Kjellberg 1998: 75).

Sweden, like the other Nordic countries, has a typical combination of central and decentralised industrial relations. National unions draw up collective contracts, while shop floor organisations are operating at firm level. The third level is the negotiation of centralised agreements. Because of this three-tier system, unions are centralised in federations as well as decentralised in local unions, national unions and workplace organisations.

This system started to erode during the 1980s. Attempts from employers' organisations to break down centralised wage bargaining to firm level met with strong union opposition. Several developments undermined the central role of LO and SAF. First of all, the growth of the public sector weakened the position of the LO. Second, the proportion of blue-collar workers decreased due to increasing service sector employment. Third, women returners increased the already high share of female labour participation. The combination of these effects weakened the position of the traditional unions, and slowly the employers' organisation became increasingly dominant. In the 1980s, relations between social partners were no longer determined by cooperation, but by increasingly militant strategies which fuelled their conflicts.

The withdrawal of the employers' organisations from the centralised negotiations provoked government intervention. In order to restore the central corporatist model, the government tried to re-centralise collective bargaining. Self-regulation was replaced by state regulation (Kjellberg 1998: 79; Pestoff 2001). The role of the national government was also challenged by internationalisation and European integration.

In 1998, corporatism seemed to make a comeback (Pestoff 2001: 8). Several unions and employers' organisations along with the government tried to negotiate a new wage agreement. This *Alliance for growth* could have helped to stimulate

growth and employment (Pestoff 2001: 8). In December 1998 however, all negotiations were broken off although an agreement was within reach. The social partners were still unwilling to overarch their differences and the Swedish model did not yet reappear.

The scores for Sweden on the corporatism index from Chapter 3 are visualised in Figure 10.2.

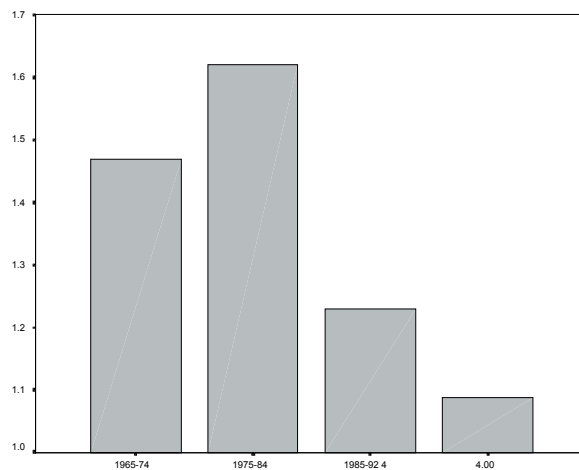


Figure 10.2 Degree of corporatism in Sweden

Figure 10.2 shows a slight decline of Swedish corporatism after 1985, but the degree of corporatism is still higher than in most other countries.

10.4 The rise and fall of the Swedish model

The developments of the corporatist institutions in Sweden are discussed in Section 10.3. This section analyses the link between institutional context and socio-economic performance. Sweden developed from a corporatist model contributing to an efficient economy and good socio-economic performance to a case of institutional sclerosis. In the 1990s, cooperation between labour and capital became less and unemployment levels rose to ever-new heights.

The 1938 *Saltsjöbaden* Agreement was the foundation of the Swedish model (Lane 1991: 4). This agreement between trade unions and employers' organisations had to maximise cooperation. Years later this agreement still had an impact on the industrial relations. The main characteristics of the policy choices of the Swedish model are a Keynesian economic policy, an active labour market policy and a large welfare state.

Sweden has multinational firms operating on world market level (Pestoff 2001). A large proportion of the Swedish economy is dependent on exports. These multinationals moved parts of the production to other countries, but many have kept their head office in Sweden. Although the domestic free market is strongly corrected and steered by the central government, these multinationals were accountable for a substantial part of Sweden's economic growth.

Katzenstein (1985) argued that corporatism could be functional in open economies as a strategy to improve the competitiveness of companies on the world economy. Sweden is a small country with little impact on the global market. Adapting to global economic developments is therefore their only option. The institutions of corporatism in Sweden allow agreements in the collective interest. These agreements are not feasible in countries where interest groups only serve their own short term interests.

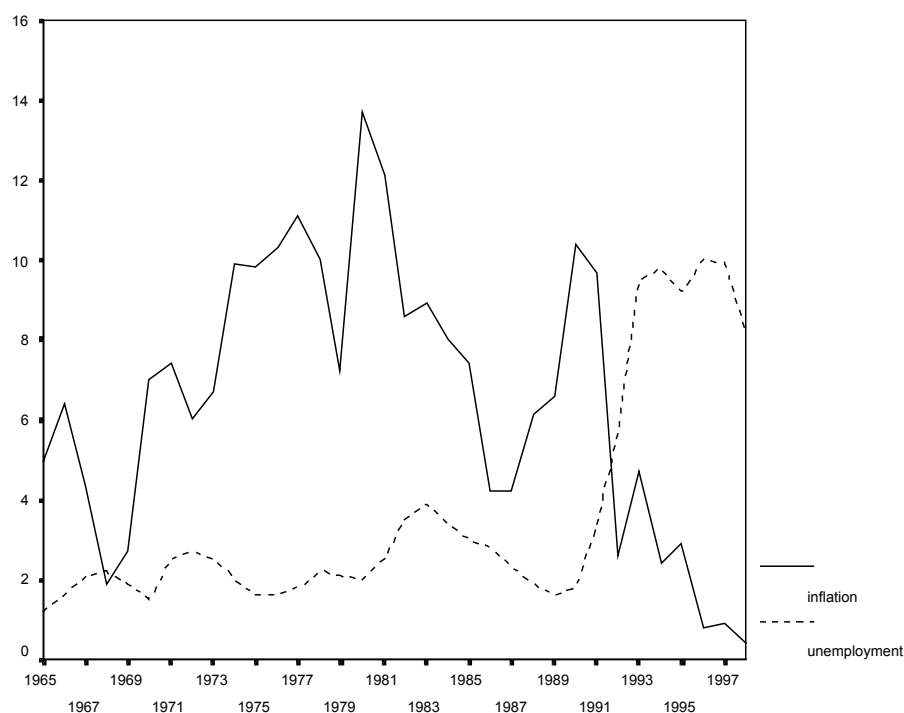


Figure 10.3 Unemployment and inflation in Sweden

Figure 10.3 shows that unemployment remained low until the late 1980s. From 1990 on the unemployment rate increased sharply. The inflation rate was high for even a longer time, but has been on the decline for several years now.

Comparing the development of unemployment in Figure 10.3 with the degree of corporatism in Figure 10.2 makes it clear that the degree of corporatism decreased ten years before the level of unemployment started to rise.

Kjellberg (1998: 93) argues that internationalisation and European integration weakened national corporatist representation. In a small country like Sweden - combining an open economy with large firms - the role of the national state is limited (Pestoff 2001). At the same time, Swedish companies have made several attempts to decentralise wage bargaining from central to firm level. These trends of internationalisation and decentralisation lessen the capacity of the national government to influence Swedish economic development. Recent attempts to re-centralise the Swedish corporatist model did not prevent the government from losing control (Pestoff 2002).

10.5 Actors, institutions and socio-economic performance

How are actors and institutions related in shaping socio-economic policy and performance? For a long time Sweden showed a pattern of corporatist institutions and a stable political system. This combination contributed to good socio-economic performance and a generous welfare state. Sweden belongs to the richest countries of the world, citizens are well protected against social risks and firms are able to compete successfully on the world market. Sweden is a clear case where, for a substantial period, corporatist institutions proved to be successful in promoting economic growth and maintaining full employment. This model appeared to erode in the 1990s. Firms found that the system of wage bargaining was too rigid, socio-economic performance deteriorated and the welfare system came under pressure. The success of Swedish corporatism faded in the 1990s. Worsening performance led to a change of actors' preferences and institutions. When success and satisfaction diminished, actors changed their strategies and tried to reshape the institutions. Employers' organisations did not support centralised wage bargaining anymore. The social democratic party continued to lose votes to conservative parties, which as a result came in government in the 1990s.

Actors

The main actors in socio-economic policy-making in Sweden are the social democratic party, the conservative parties, trade unions and firms. LO is the main general federation of trade unions and TCO is the public sector union. LO is quite militant in trying to protect the corporatist tradition of Sweden. The Swedish Employers' Confederation SAF was in the 1990s strongly opposed to the corporatist structures. Social democrats (SAP) have been in power for a long time. This party

has been very important for the building and maintaining of corporatist structures in Sweden. Under Prime Minister Bildt, conservative parties started an active policy of decentralisation and deregulation (Pestoff 2002: 295-296). Social partners lost their organisational representatives in the governing bodies of public administration boards. This policy was supported by the employers' organisations SAF. A return of social democrats in government in 1994 did not restore this unique system of lay representation.

Institutions and linkages between consensus democracy and corporatism

Through time Sweden has shifted from a majoritarian and to a more consensus democracy. Lewin (1998: 204) states that 'during the 1990s cooperation and consensus between parties is again the dominant trend'. Having a rather homogeneous society, there was no strong need for consensual institutions to mitigate potential political conflict. The degree of consensus democracy has increased by a higher effective number of parties. This means that electoral fragmentation has increased. Algotsson (2001) argues that Swedish democracy has become less majoritarian by its accession to the EU. Since then, the power of central government is combined with vertical separation of powers of the EU. Although the national decision-making capacity is constrained by the EU, this has not caused a strong increase of the consensual character of Swedish national political institutions.

Compared to other countries, Sweden was for a long time, one of the most corporatist countries in the Western world. For decades, Sweden was a role model. Both workers' and employers' organisations cooperated. It was in the interest of both parties, not only in the interest of workers. Soskice (1999: 103) stresses that 'in those advanced economies in which business has been strongly organized that industrial relations systems have remained important'. In the 1990s, Sweden's system of wage bargaining was decentralised by the conservative government, which was pushed by firms (Pontusson & Swenson 1996; Swenson & Pontusson 2000; Fulcher 2002: 290). According to Soskice (1999: 132) Swedish skilled workers' unions have agreed with flexibilisation of wage bargaining to prevent that business organisations succeeded in a total deregulation. Trade unions complied with this second-preferred option. In 1998, workers' organisations proposed the pact 'Alliance for growth'. The reappearance of social partnership was still resisted by employers' organisations.

There is some coincidence of consensus democracy and corporatism in Sweden, although the former has never been very strong. There was a connection between a dominating social democratic party in the political arena and trade unions in the

political-economic arena. To some extent there was a shared ideology of mitigating class conflict. Both in the political and the political-economic arena cooperation was strong and there were relatively few conflict and strikes. Interest groups were involved in both decision-making and policy implementation.

Socio-economic performance

What has been the impact of consensus democracy and corporatism on socio-economic performance in Sweden? As already argued, Swedish corporatist institutions formed a unique model of cooperation between unions and employers' organisations on socio-economic issues. There was coordination on several levels of wage bargaining, workers and employers were involved in social policy and there was strong commitment to full employment.

The degree of consensus democracy in Sweden is not very high. Yet, Swedish political system is relatively stable and peaceful. An important determinant of this stability is the dominance of the social democratic SAP. A stable government, although it was often only based on a minority in parliament, contributed to the successful socio-economic policy. There was a rather consistent ideology of corporatist industrial relations. In this respect, consensus democracy and corporatism strengthened each other.

In the 1990s there was strong dissatisfaction with socio-economic performance. Especially employers demanded a change of the system of wage bargaining. Swedish firms threatened to move production to other countries and they even considered moving their head office to other places.

Dissatisfaction about socio-economic performance paved the way for a right-wing coalition in 1991. Inflation rates did decrease, but unemployment continued to increase to a level of about 10%. Worsening socio-economic performance in Sweden put the generous welfare state under pressure. Swedish active labour market policy, which had been a success for a long time, became very expensive with so many people dependent on social assistance.

Corporatist institutions certainly contributed to the success of the Swedish model until the 1980s, but some country-specific aspects added to the success as well. There was a strong social democratic ideology and firms developed internationally and were highly competitive. When socio-economic performance deteriorated employers' organisations and conservative parties attacked successfully the corporatist institutions. Trade unions and left-wing parties aimed to protect the system of policy concertation. With declining corporatism in Sweden, unemployment remained high, but inflation rates decreased. The right-wing government was more devoted to lower inflation, even at the cost of unemployment. Full employment was

no longer a priority because there was less involvement of workers' organisations in policy-making. At the same time, Swedish active labour market policy was weakened.

Central bank

For a long time, Sweden's central bank independence has been relatively low. Franzese & Hall (2000: 184) argue that increasing central bank independence when wage bargaining is coordinated helps to obtain lower inflation without increasing unemployment. Swedish monetary policy had become more non-accommodating during the 1990s (Iversen & Pontusson 2000: 18). The central bank was certainly not totally independent from the government. Sweden has devaluated its currency and liberated the capital market. In the 1990s, inflation decreased, but unemployment remained high. Central bank independence in Sweden is still comparatively low and the system of wage bargaining became more decentralised in the 1990s. These events can to some extent explain why inflation decreased, while unemployment remained high.

10.6 Socio-economic problem-solving

The pattern of socio-economic development in Sweden deviates from that of the other analysed cases. While the other countries have experienced a long period of worse performance and socio-economic crisis, Sweden performed comparatively better. This good performance was largely explained by the corporatist institutional structure. For a long time there was no reason for actors to adapt their behaviour because of a crisis. Sweden is a case where a strong awareness of the possibility of a crisis was largely absent. And therefore actors had no reason to change their behaviour nor was there need for institutional reform. This partly explains why the institutional arrangements of consensus democracy and corporatism are quite stable, at least compared to other countries. This absence of a severe crisis and the absence of changing behaviour and institutions contrast the other analysed cases. In these other cases a crisis instigated different actors' behaviour resulting in different institutional arrangements, while Sweden lacked this urgency for change for a long time. This can be seen as a confirmation that a deep crisis can lead to changing institutions and that absence of such a crisis contributes to institutional stability. In other words, it shows that the actors' behaviour related to institutional arrangements is largely determined by their perception about the socio-economic situation.

In the early 1990s, Sweden, like most other Western countries, was hit by an economic crisis. This crisis affected especially the behaviour of the employers' organisations. They largely blamed the Swedish corporatist institutional structure.

Together with a conservative government they tried to reform corporatist platforms and to implement a neo-liberal socio-economic policy. Despite decentralisation of wage bargaining, Sweden did not manage to restore its former excellent performance.

10.7 Conclusions

The Swedish political system appears to be rather stable. No fundamental changes in terms of consensus democracy have occurred. Most of the characteristics used in this study to measure the degree of consensus democracy have not changed in Sweden. The only apparent development is a slight increase in the number of parties.

The real changes in Sweden took place in the system of industrial relations. After a substantial period of consensus and compromise between work and capital, the Swedish model folded in the 1990s. All actors involved changed strategies. Employers attempted to decentralise wage bargaining, unions became increasingly militant and the government again tried to re-centralise the whole process.

Sweden can be seen as a case where all social actors were forced to change their strategy due to international pressure. The Swedish economy is open and is dependent on world market developments. Sweden hosts many multinationals. For a long time, workers and employers were prepared to make agreements on wage moderation in order to preserve the Swedish position on the world market.

From the 1980s on, employers have tried to undermine the centralist system of wage bargaining. The government attempted to end a period of conflict between labour and capital. This resulted in a shift from self-regulation to state regulation. The emphasis on cooperation and consensus was replaced by state intervention. While most Western European countries show a trend towards revitalisation of social partnership, Sweden has lost much of its once praised harmonic model. An attempt to reinstall social partnership in 1998 failed. From their increasing dominant position, employers have undermined the system of peaceful industrial relations. Unions are internally divided by changes within the labour force. The government is trying to get a renewed grip on the political economy. Sweden has still a long way to go before it reaches a new equilibrium.

For a long time, until the late 1980s, in Sweden corporatist institutions were successful in promoting economic growth, guaranteeing full employment and low inflation rates. The Swedish model worked well as long as all conditions were supportive and the model worked longer than in most other Western countries. When conditions changed in the 1990s, the institutional structure was unable to cope with the economic crisis. Already before that time, employers' organisations attempted to

decentralise national corporatism. Firms were increasingly internationally focused. At the same time national policy-making was increasingly constrained by European integration. Employers' organisations felt less committed to national coordination of socio-economic policy and wage bargaining. Firms became more international players and did no longer need the traditional national corporatist institutions. Pestoff (1999: 15) observes that 'SAF is stuck with Sweden, and Sweden with SAF'. They successfully limited national corporatism and implemented decentralisation of wage bargaining.

Trade unions became increasingly divided. In the 1990s they had not enough power left to obstruct decentralisation, which was pushed by employers' organisations and a conservative government. Moreover, European integration made workers' organisations realise that it had become more difficult for Sweden to pursue its own policy.

Decentralising national corporatist institutions did not lead to better performance. The main conclusion is that in Sweden corporatist institutions were efficient under good socio-economic conditions. This positive effect lasted longer than in other countries, but in the end, Swedish corporatist institutions could not prevent an economic crisis. This means that although a national strategy of corporatism may to a certain level limit the impact of an international economic crisis, it does not make a country entirely insensitive for external influences.

The institutional dynamics of consensus and conflict

11 CONCLUSIONS

11.1 Goal of this study

This study has analysed the relations between different types of institutional arrangements and their impact on socio-economic policy-making and performance. Consensus based versus conflict based institutional arrangements are contrasted. Institutional arrangements of consensus versus majoritarian democracy are used in the case of political decision-making. Institutional arrangements of corporatism compared to pluralism are used in the case of policy concertation among organised interests. Do these consensual institutions make a difference? The institutional patterns have been analysed comparatively for twenty developed democracies. The results and findings are discussed in this chapter.

The research question underlying this thesis is: under what conditions and to what extent do the institutions of consensus democracy and corporatism contribute to better socio-economic performance in twenty developed democracies? There have been various studies on the impact of consensus democracy and corporatism on performance with different conclusions. This study attempts to take a next step. First, it focuses on differences and similarities of the institutions of consensus democracy and corporatism. This study shows that both types of institutions differ and have different effects on performance. Second, both formal and informal institutions are taken into account. Third, instead of a static approach, a more dynamic approach has been developed. This study does not only measure variations over time, but focuses also on the interactions between actors and institutions. The institutional dynamics comes to the fore in how actors' behaviour is adjusted by institutions and in turn how these actors attempt to influence performance and how variable performances change actors' strategies to cope with socio-economic change.

11.2 Comparative findings

This study compares twenty democracies by means of a quantitative approach and focusing on four cases out of these twenty countries in more detail in a qualitative manner. First of all, the institutions of consensus democracy and corporatism are defined and measured. The conceptual and empirical linkages are presented as well as their effects on socio-economic performance. This has been presented in Part II of the book.

The institutions of consensus democracy

Chapter 2 deals with the following sub-questions: what is consensus democracy, how is it defined and how can it be measured properly in comparative research? How did consensus democracy develop in twenty developed democracies between 1965 and 1998?

The comparative study of political institutions of consensus democracy goes a long way back. It started as an explanation of events in individual countries and developed empirical models for comparative analysis. Consociational democracy was developed to explain democratic stability in a social-culturally heterogeneous society. Consensus democracy, however, is a set of institutional arrangements of political decision-making associated with broad consultation of parties and organised interests as opposed to majoritarian democracy that enhances the development of a dominant party.

Lijphart made an important contribution to comparative politics by developing the concept of consensus democracy. The consensus versus majoritarian dichotomy makes a crucial distinction between the way institutions deal with social divisions and potential political conflicts. The main problem with Lijphart's refinements of his model is that by taking too many different kinds of indicators into account, it has become too much of a container concept with a too high degree of multi-dimensionality. Central bank independence, for example, matters for governance and socio-economic performance, but is not an institutional feature that necessarily contributes to consensus and conflict-solving. Corporatism may well enhance influence of interest groups in socio-economic policy-making, but it functions almost by definition in a different arena, as already is shown. Lijphart's federal dimension of consensus democracy is redundant. Federal institutions give certain actors veto power, but this does not necessarily lead to consensual behaviour. Of the countries analysed here, Switzerland is the only case of a small country with a heterogeneous society and a long history of federalism. Lijphart's model of consensus democracy is important in order to understand comparative institutional patterns of conflict-solving, but in my view, he developed it too much in an all-embracing concept of democracy.

Chapter 2 presents a more parsimonious and dynamic operationalisation of consensus democracy. There is considerable variation in the presence of consensus democracy both through time and across countries. Switzerland, Finland and Belgium are the strongest cases of consensus democracy, while Canada, New Zealand and the United Kingdom have the highest degree of majoritarian

democracy. According to my analysis, the Netherlands, France, Italy and Australia show the largest fluctuations in the degree of consensus democracy over time. In sum, the index of consensus democracy presented in Chapter 2 is a valid and reliable indicator of consensus politics with regard to policy-making.

The institutions of corporatism

What is corporatism, how is it defined and how can it be measured in comparative research? How did corporatism develop in twenty developed democracies between 1965 and 1998?

Corporatism, in my opinion, should be considered a special institutional arrangement of socio-economic policy-making between employers' organisations and trade unions. Contrary to pluralism, interest groups have preferential access to the processes of policy-formation and implementation and it is a closed shop and not a free for all system. Industrial relations are characterised by consensus and cooperation rather than by conflict. The main contribution of cooperation between interest groups and government on socio-economic issues is that agreements can be reached to represent the common good and that are more stable over time. Coordinated and centralised wage bargaining avoids short-term behaviour (such as strongly increasing wages in specific sectors for specific groups) that undermines the general interest. In other words, corporatist institutions change a 'one shot' game (with a sub-optimal solution as an outcome) into an iterated game, in which a Pareto outcome appears more feasible. That is – at least – the underlying idea of many students of corporatism.

Many operationalisations have been developed to measure empirically the role of corporatism. This study presents an alternative index that aims at a concept which allows for a more refined, more precise measurement of the existence of corporatist institutions and which is simultaneously dynamic by applying it to four different time periods. It should be noticed that the role of government is explicitly not taken into the measurement of corporatism to avoid overlap with consensus democracy, which – as we pointed out – is seen as the institution where government is central. Hence, we have two institutional models representing the influence of actors within democracies regarding policy-making. Therefore, linkages between corporatism and consensus democracy are of special interest in this study.

Linkages between consensus democracy and corporatism

What are both the conceptual and the empirical relation between consensus democracy and corporatism; which relations can be found between both institutional arrangements, cross-national and through time?

On a conceptual level there are differences between the models of consensus democracy and corporatism as well as commonalities. One connection between consensus democracy and corporatism is that both institutional models enhance the input of many different groups and interest interests in decision-making and policy formation and implementation. They differ in the arena of decision-making, but both institutional models share a broad range of incorporated and involved actors. This is in contrast with majoritarian democracy, which excludes groups or at least hinders the access of various (minority) groups. Moreover consensus democracy and corporatism can be considered to function complementary. While certain groups may not succeed in gaining influence in the political decision-making arena, they may gain access to the policy-making process – in this case through institutionalised forms of socio-economic policy formation.

The most obvious similarity between consensus democracy and corporatism is the style of decision-making that is used. Both models are based on cooperation and compromise as basic mechanism. Therefore, consensus and conflict are distinguished as the opposite ends of a scale. Consensus democracy and corporatism belong to the category where compromise is the major style, while majoritarian democracy and pluralism represent the opposite category.

Despite some connections and overlap, there are some fundamental differences between consensus democracy and corporatism. Most prominent of which is the arena in which they function: the political and the socio-economic arena respectively. Another difference concerns the actors involved. While consensus democracy applies to the decision-making between voters, parties and governments, corporatism concerns with trade unions and employers' organisations.

Although consensus democracy and corporatism may well coincide in their underlying ideas, they have their own dynamics. Our comparison of consensus democracy and corporatism has led to the conclusion that these institutional arrangements should indeed be distinguished from each other, both conceptually and empirically. Both institutional arrangements apply to different decision-making arenas in which different actors are involved. Of course, governments operate in both arenas dealing with both political parties and with trade unions and employers' organisations. And socio-economic policy is not solely shaped by political decision-making. Of course, both institutional arrangements are not closed systems and have relations with other institutions. Yet, this is no reason to mix consensus democracy and corporatism up, as is done by Lijphart (1999) and Lijphart & Crepaz (1991). Lane & Ersson (2000) and Keman & Pennings (1995) are correct in claiming that these two sets of institutions must be clearly distinguished. This claim is clearly upheld in this study.

Impact on socio-economic performance

What is the relationship between the institutions of consensus democracy and corporatism and socio-economic performance? To what extent do these institutions contribute to better performance? An important conclusion of Chapter 5 is that the institutions of consensus and cooperation are not systematically related to better performance. The effect of these institutions on performance is influenced by other factors as well, such as openness of the economy, central bank independence and so on. This finding implies that existence of the institutions of consensus democracy and corporatism is not by definition the best medicine for a good socio-economic performance. In Chapter 5 a number of hypotheses were tested by means of multivariable regression. The result demonstrates that indeed the link between consensus democracy and corporatism with performance is weak, especially if controlled for contextual factors.

Generally speaking, we conclude that consensus democracy and corporatism are associated with several performance indicators, but this effect mostly disappears if and when controlled for other variables. Only the positive effect of corporatism on social expenditures remains when controlled for other factors. In other words: unemployment, inflation, economic growth and GDP per capita are not dependent on the existence of consensus democracy and corporatism. Hence, the influence of consensus democracy and corporatism is at best indirect and matter only under certain conditions, i.e. in combination with other factors. For example, openness of the economy is associated with lower inflation rates, higher GDP per capita and higher social expenditures. Central bank independence is associated with lower unemployment rates and higher GDP per capita. If and when these coexist one may indeed expect a higher performance in combination with consensus democracy and corporatism.

Corporatism does matter for social expenditures. This means that corporatist institutions have no robust impact on socio-economic performance, but instead lead to other policy choices. This observation does not hold for consensus democracy. Consensus democracy does not matter strongly for socio-economic performance indicators or for social expenditures. This demonstrates that it is hazardous to use a broad operationalisation of consensus democracy, like Crepaz (1992) and Lijphart (1999) have done. They found indeed positive effects of consensus democracy, because several factors, such as central bank independence and corporatism were included as indicators of their concept of consensus democracy. It appears that

each of these have an isolated effect. Moreover, our findings show that the effects of consensus democracy and corporatism on performance differ. This confirms that these institutions are not the same.

11.3 Case analysis

The comparative analysis indicates that corporatism and consensus democracy are not strongly related to socio-economic performance. However, this does not mean that the relationship between institutions and performance is totally irrelevant. From the set of twenty countries, four cases have therefore been selected to analyse the mutual influence of institutions on performance. The cases also allow for taking into account the role of actors. In the analysis of the relations among actors, institutions and performance the framework of two phases, two arenas and two levels of socio-economic policy-making is used. The four cases - the Netherlands, New Zealand, Portugal and Sweden - show – as expected - different institutional patterns and socio-economic performance. For each case we have attempted to analyse in more detail how and in what way institutions and actors are interrelated and have interacted.

The Netherlands

The improvement of socio-economic performance that occurred in the 1990s is not solely due to the level and change of the institutions of consensus democracy and corporatism. An external factor, namely natural gas revenues, were still a substantial source of income for the government which was used to maintain the high and generous level and entitlements of social benefits (Hemerijck, Unger & Visser 2000: 213). Among other things, the Dutch disease was caused by a lack of direct pressure to cut in social security despite increasing unemployment. For a long time, there was ample active labour market policy. Since the first Kok government, both levels and entitlement of social benefits were reduced. Benefit recipients were offered subsidised jobs, first in the public sector, later also in the market sector. Labour contracts were made more flexible and temporary employment agencies – supplying part-time labour - were promoted by the government. There was a state-organised job agency and there was even a collective agreement for temporary workers. Increasing part-time employment and the entrance of women in the labour market made it possible to benefit strongly from the cyclical economic growth of the 1990s. The resulting shift from low to high employment has been labelled the 'Dutch miracle' (Visser & Hemerijck 1997).

Comparatively, performance in the Netherlands developed from below to average. The institutions of consensus democracy and corporatism have always been present in the Netherlands, but there was no strong increase in importance of these institutions that could explain the better performance. In the 1990s, government had become more dominant. The consensual institutions were used by the government to create support from interest groups for reforms in social security and regulating labour market. There were no voluntary agreements between interest groups, but the government involved these groups in the policy-making process. Political actors played a dominant role compared with social and economic actors. Consensual institutions in the Netherlands allowed input of interest groups in decision-making without having the opportunity to obstruct policy reforms. This legitimated political decisions and prevented loss of support for the political system. Nevertheless, Dutch consensual institutions were not responsible for better socio-economic performance as such. The implementation of radical policy changes that contributed to better performance was facilitated by these institutions. In other countries, consensual institutions could have led to obstruction of policy change. In the Dutch case, these institutions contributed to stronger support – at least during the 1990s. This means that institutions as such cannot explain policy change and better socio-economic performance, but the way they were used by the actors appear to have facilitated policy-making. Hence, there is no Dutch miracle in which a certain configuration of institutions solves socio-economic problems, but rather – as we showed in our comparative analysis – that other factors together with a consensual configuration is more likely to coincide with a proper socio-economic performance.

New Zealand

In New Zealand, a Labour government initiated a neo-liberal socio-economic policy in 1984. Later, the National Party reformed the welfare state. New Zealand exempted much of its labour market and wage bargaining regulations and adopted a neo-liberal strategy of individual wage bargaining. Despite these policy reforms, socio-economic performance trailed behind that in other countries.

The existing majoritarian political system made radical policy reforms possible, since, the ruling party has a secure majority and meets little opposition. Yet, the New Zealand case shows there is also a limit to radical policy reform. Dissatisfaction about socio-economic performance became visible in the electoral results of the two alternating parties in government, which undermined the legitimacy of the political

system. This contributed to the change of the electoral system that in 1996, after a long debate, became more proportional by the introduction of the mixed-member proportional system.

In New Zealand performance did have an impact on actors' strategies and institutions were adjusted. The institutions of consensus democracy and corporatism were adjusted in opposite directions. On the one hand, wage bargaining was decentralised and the role of trade unions was drastically cut back. The influence of interest groups on socio-economic policy-making was limited. On the other hand, the electoral system became more proportional and instead of single party governments, coalitions were formed. This pattern of moving even further away from corporatism and moving closer to consensus democracy did not contribute to a significantly better socio-economic performance.

Portugal

Portugal's political system has moved from a moderate consensus democracy into the direction of a more majoritarian democracy. In the post-revolution transition period, consensus seemed essential to consolidate democracy. Hence, institutional arrangements were developed to enhance political stability, not for socio-economic policy. In the 1980s, these consensual institutions became less important. Once political stability was secured, the democratic system became more majoritarian. Simultaneously, a more neo-liberal policy was implemented.

Socio-economic development in Portugal must be explained otherwise than by the institutions of consensus democracy and corporatism. The economy was liberalised and opened for foreign investments. International trade increased significantly. Trade openness was stimulated by European integration. After joining the EU, substantial money from the European structural funds were invested to improve infrastructure. The transition to democracy and accession to the EU changed Portugal fundamentally and brought it in a modern age. In Portugal consensual institutions contributed to more political stability, but there is no direct or strong connection with socio-economic performance. Thus consensus democracy and corporatism have not developed in performance and apparently it was not in the interests of politicians and capital and labour.

Sweden

In Sweden, corporatist institutions have for a long time contributed to a comparatively sound socio-economic performance. Although in the 1980s corporatism was on the decline in several other countries, Sweden still had a much more active labour market policy and unemployment still was much lower. The Swedish social democratic

model of corporatism was increasingly under pressure of firms and employers' organisations in particular, but it did not change overnight. Social democrats remained the strongest party, institutions were rigid and enhanced a path-dependent social policy. Due to the declining support from firms for corporatism, wage bargaining was slowly decentralised. During the 1990s performance in Sweden deteriorated. Sweden did not manage to achieve full employment any more. Increasing unemployment in the 1990s coincided with the erosion of corporatist institutions. Hence, performance seems to be the effect-producing factor. However, adopting a more neo-liberal policy in the 1990s did not lead to an end of the Swedish economic crisis. Employers' organisations did apparently see no future for corporatism. Yet, there appears not to be a viable alternative for the corporatist model that can lead to a resurgence of Swedish economy.

Table 11.1 Summary of the four cases

	Consensus democracy	Corporatism	Linkage consensus democracy and corporatism
Nether-lands	From consociationalism to depoliticised elitism	From tri- to bi-partism	Strong
New Zealand	Away from majoritarianism by electoral reform (more proportional); From bipolar party system to coalition governments	End of system of arbitration; decentralisation of wage-bargaining	Not present
Portugal	Shifting between majoritarianism and consensus; less presidentialism	Social partnership in the 1990s	Weak
Sweden	No change of the political system	From the Swedish model to decentralised bi-partism	Medium

Table 11.1 continued

	Performance	Actors' role	International dimension
Nether-lands	From low labour participation to low unemployment	Unions weak; government dominant over interest groups	Open economy and member EU
New Zealand	Lower inflation at the cost of more unemployment	Labour implemented neo-liberal reforms; National Party reformed welfare state	Isolation from world market; export to UK declined since UK entered EU
Portugal	Economic growth and employment	After revolution polarisation; since 1985 conservative government dominates and neo-liberal reforms	EU stimulated investments and part of EU market
Sweden	Full employment disappeared in the 1990s	Strong social democratic party and divided opposition; 1990s: firms and conservatives urged for decentralisation wage bargaining	Open economy; member of EU since 1995, but not of EMU

Each case is selected from one of four clusters. Sweden, from the consensus and corporatist cluster, showed good performance in the past, but this advantage disappeared through time. This resembles the connection between corporatism and performance through time, although in Sweden corporatism remained strong for a longer time than in most other countries. New Zealand performed worse than other countries in the majoritarian and pluralist cluster. The non-consensus and non-corporatist cluster, to which Portugal belongs, performed significantly worse than the other clusters. For a long time Portugal lagged behind other countries, but through the democratic transition and joining the EU, Portugal achieved increasing economic growth and reducing unemployment. A long time, the Netherlands, from the consensus or corporatist cluster, had average performance. It was not until the mid 1990s that employment increased.

The findings in the cases can be summarised as follows. Corporatism is useful as a transient strategy to keep inflation and unemployment under control. Yet, since the late 1980s, the positive effect of corporatism on performance has been declining. In Sweden corporatism became less important and ways different than a corporatist strategy were tried to improve socio-economic performance. Better

performance in the Netherlands in the 1990s cannot entirely be explained by corporatism and consensus democracy, but rather by other factors such as flexible labour contracts, part-time jobs and the entrance of women on the labour market.

Consensus democracy is relevant for system support and political stability. In New Zealand dissatisfaction with electoral results weakened the majoritarian political system. In Portugal consensual institutions seem to have played a role during the transition to democracy. Majoritarian democracy can be useful for radical policy change. In New Zealand a neo-liberal policy and a welfare state reform were implemented that would have met much stronger resistance under a consensus democracy. In Portugal neo-liberal socio-economic policy reforms were introduced in a period in which the political system moved towards majoritarianism. These reforms were in part needed to prepare Portugal for accession to the EU. In all 4 cases, the role of trade unions has weakened. In Sweden and New Zealand, regulations have limited the power of unions. In the Netherlands, unions lost a great deal of their members. In all Western democracies corporatist institutions have been under pressure, but they did certainly not disappear entirely. However, these configurations appeared incapable to reverse worsening socio-economic conditions.

Obviously, the international dimension should not be neglected in this case comparison. The Netherlands and Sweden have very open economies that are largely dependent on international trade. Because of their competitive position in the world market, wage costs are crucial for their economic growth. That explains why the system of wage bargaining has played such an important role in Sweden and the Netherlands. Portugal is a case where since the 1980s integration in the European political and economic system constrained domestic socio-economic policy-making. The European Union has been a stimulating factor for economic development as well as a constraining factor of national policy choices. New Zealand was forced to make other socio-economic policy choices, when the trade with the UK declined. International factors have been crucial in all these cases, but still they show different institutional patterns of socio-economic problem-solving.

The four cases analysed show the importance of the role of actors. Institutions may shape the room to manoeuvre for actors, while actors make decisions about policy choices and adapt to changing institutions. This conclusion shows the usefulness of the actor-centred approach of institutional analysis. Both institutions and actors appear to be important.

The role of the government - which is not part of the measurement of corporatism - appears important. The case analysis shows that governments played a dominant role in making socio-economic policy. Moreover, governments are able to overrule

agreements made between trade unions and employers' organisations. This means that corporatist institutions seem to work if and when allowed for by the political arena. Corporatism can function in addition to consensus democracy, but it certainly has not the same role as political decision-making. Again, as was concluded earlier, consensus democracy and corporatism are not the same phenomena, they function differently and – in the end - their effect depends on the actors.

11.4 The institutional dynamics of consensus and conflict and socio-economic problem-solving in twenty developed democracies

The institutional dynamics of consensus and conflict is understood in this study by how actors and institutions are related with performance. To understand how the institutions of consensus democracy and corporatism are connected to other policy choices and socio-economic performance, two phases, two levels and two arenas of socio-economic problem-solving has been distinguished.

The relation between actors, institutions and performance consists of two phases of socio-economic problem-solving. The first phase focuses on how performance changes actors' strategies and in the second phase actors adjust institutions in order to achieve better performance. The process of socio-economic problem-solving can also be understood as a two level game. Actors and institutions operate at two levels. Parties interact with voters and parliamentary parties cooperate in government formation. There is interaction between interest organisations and their members. In the socio-economic arena trade unions interact with employers' organisations. Actors shift between two arenas: political decision-making and policy concertation among organised interests. In the former a distinction between consensus and majoritarian democracy is made, while in the latter corporatism versus pluralism.

With regard to these three distinctions of socio-economic problem-solving (two phases, two levels and two arenas) three conclusions can be drawn. First, when looking at the two phases of socio-economic problem-solving this study shows that the impact of socio-economic performance on actors and their strategies and institutions is important and has a strong influence on the role of institutions and actors.

Second, actors, such as political parties and interest groups, play a game at two levels. Parties interact with other parties in government formation and political decision-making and they interact with voters in gaining political power. Interest groups interact with other groups in wage bargaining shaping socio-economic policy and they interact with their members. In New Zealand, drastic policy reforms contributed to dissatisfaction among voters about the electoral system. Institutional

reform was needed to secure support. In Portugal the democratic system and socio-economic policy was under permanent pressure from different groups. Consensus democracy contributed to system support during the transition period. In Sweden, employers gave up their support for the system of centralised wage bargaining. This made it a different type of corporatism. This means that changes in the support of voters and interest group members can lead to changes in institutions. These changes are often driven by dissatisfaction about policy choices and socio-economic performances and result in more or less disfunctionality of existing institutions.

Third, two different arenas with two different institutions must be distinguished; actors have the option to move from one arena to the other arena when no satisfactory decision can be made. Institutions of consensus allow political actors to obstruct development of new policy or adjusting existing policy. Actors can move to the arena of policy concertation and use corporatism for policy reform or development. In the 1990s corporatism was no longer related to better socio-economic performance, but in several countries it has allowed actors to reform the welfare state. Majoritarian democracy may help to keep the welfare state comparatively smaller, but it does not mean a better socio-economic performance than elsewhere.

The distinction between consensus and majoritarian democracy and between corporatism and pluralism proved to be relevant. Actors adjusted institutions in the direction of either of these types. This change was driven by the urge for political stability and socio-economic performance.

This thesis started from the expectation that additional institutional arrangements or informal institutions are created when formal institutions do not function. Our conclusion is that actors themselves adapt and adjust the rules of the original game within the existing configuration. The institutional dynamics of consensus and conflict is found in the two phases and the fact that actors can shift between levels and arenas.

The central question of this study has been under what conditions and to what extent consensus democracy and corporatism contribute to better socio-economic policy-making and better performance in twenty Western democracies. Four hypotheses are tested:

- 1 institutions are not static but dynamic;
- 2 consensus democracy and corporatism are different institutional configurations and have a different relation with socio-economic performance;
- 3 consensus democracy and corporatism lead to better socio-economic performance;
- 4 consensus democracy and corporatism are characteristic for a larger welfare state.

The findings in this study confirm the first hypothesis that institutions are dynamic. Yet, the main finding is that not only institutions do change, they also appear to be driven by both actors' strategies and by (changes in) socio-economic performance. The dynamics is shown by comparative analysis and is reinforced by the four cases.

Consensus democracy and corporatism share some underlying characteristics, but they are indeed different types of institutions and they have different effects. The impact of consensus democracy and corporatism on socio-economic performance is generally modest. In particular when other factors are taken into account, the effects are weak. This means that hypothesis 3 is not confirmed by this study. The only effect that appears to be robust is the positive effect of corporatism and - to a lesser extent - of consensus democracy on social expenditures. This confirms the fourth and last hypothesis.

The conceptual model in Figure 1.2, Chapter 1, shows that actors' preferences are transformed into policy choices and affect performance through the institutions of consensus democracy and corporatism. This Eastonian approach emphasises the effect of institutions on policy choices and performance, but also leaves room for feedback effects. The effect of performance on institutions, as suggested in the two phases of socio-economic problem-solving in Section 1.6, Chapter 1, was indeed found in the case analyses.

The main findings of this study are that the institutions of consensus democracy and corporatism are not always most preferable and that the relation between institutions and performance must be understood as a two-sided process. This study concludes that the institutions of consensus democracy and corporatism still matter, but they do not always contribute to better socio-economic performance. The positive effect on performance is not the same for all countries, in all periods and under all circumstances. This means that the institutions of consensus democracy and corporatism are probably not feasible and viable for all political-economic systems. The theoretical framework and the comparative methodology used in this study shows that one must not only focus on the impact of institutions on performance, but that performance can change actors' behaviour and institutions as well.

The comparative analysis of this study shows that the impact of institutions on performance varies cross-nationally and across time. The case analysis shows that the role of actors is important, but also variable across the cases. There is not found a one-way relationship between institutions and performance. Instead of institutions,

it appeared that contextual variables largely shape macro-level performance. National configurations of institutions and actors contribute to socio-economic performance (until 1990s) but appear amendable if and when performance is low.

In cross-national and cross-time analyses this influence of actors is often underrated. Actors' preferences and strategies appear to be relevant and can be made visible at the case level. Performance may well be in part directed by institutions and actors but only to a limited degree: socio-economic performance is a central factor which drives actors' strategies and institutional change. The comparative analysis emphasises the impact of institutions on socio-economic performance. The case analysis shows the role of actors and how they in relation with institutions both try to influence performance and are influenced by performance.

The institutional dynamics of consensus and conflict

APPENDIX A CODE BOOK VARIABLES

The range of the data set is 1965 to 1998 (variable year)*.

Number of countries = 20

Main variables and their meaning

cdx index of consensus democracy (annual scores; range 1965-98*)

$$cdx = efnpp - reduc - elecsys + tog + domgov$$

central centralisation of wage bargaining

3 central level

2 sector level

1 firm level

conscorp presence of consensus democracy and corporatism

4 consensus and corporatist

3 consensus or corporatist

2 non-consensus and non-corporatist

1 majoritarian and pluralist

coord coordination of wage bargaining

3 central coordination

2 sectoral coordination

1 firm or no coordination

corpx index of corporatism (scores in four periods: 65-74*; 75-84; 85-92; 93-98)

$$corpx = central + coord + tdens + cover$$

cover coverage rate of collective bargaining (percentage of workers that are covered by collective agreements)

cpi inflation

disprop Gallagher index $G = \sqrt{(1/2 \cdot \sum (v_i - s_i)^2)}$,
 v_i : vote share of party i
 s_i : seat share of party i

domgov dominance of government over opposition

efnpp effective number of parliamentary parties

efnep effective number of electoral parties

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elecsys electoral system

gdpgr economic growth

gdppcap gdp per capita

imex openness of the economy

misery misery-index = $\text{unem} + \text{cpi}$

reduc disproportionality (reduction of proportionality) calculated as:
 $(\text{efnep} - \text{efnpp})/\text{efnep}$

tdens trade union density (percentage of workers that is member of a trade union)

tog type of government

unem unemployment

zperform (standardised) performance-index = $\text{gdpgr} - \text{unem} - \text{cpi}$

* except for Greece, Portugal and Spain

APPENDIX B ELECTION RESULTS CASES

The Netherlands

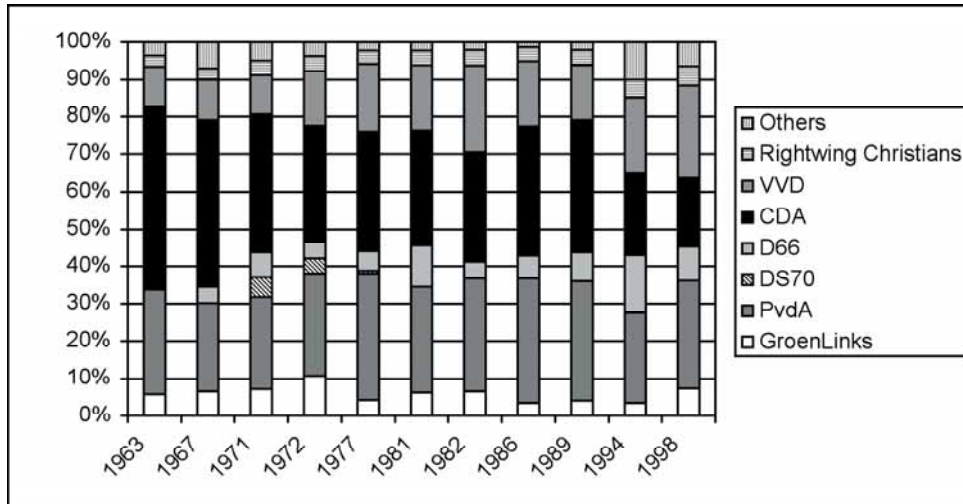


Figure B.1 Distribution of the votes in Dutch elections

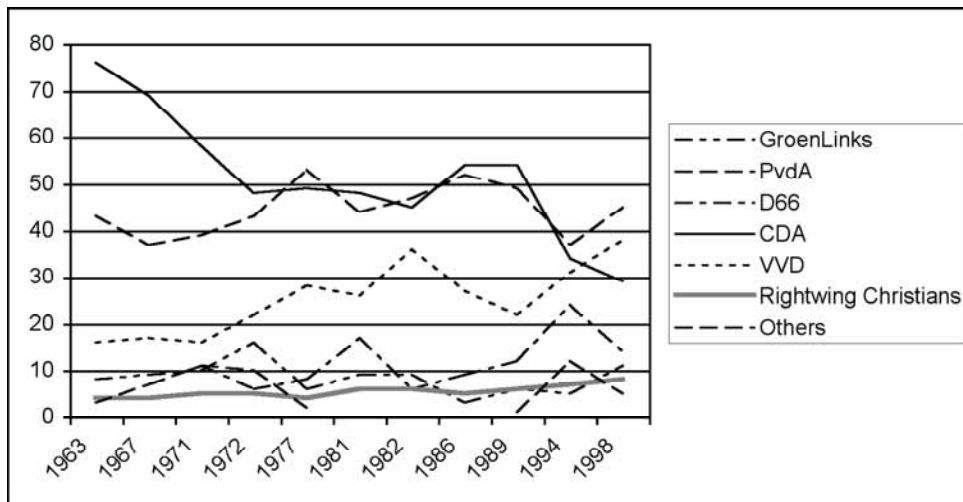


Figure B.2 Distribution of the seats in Dutch parliament

New Zealand

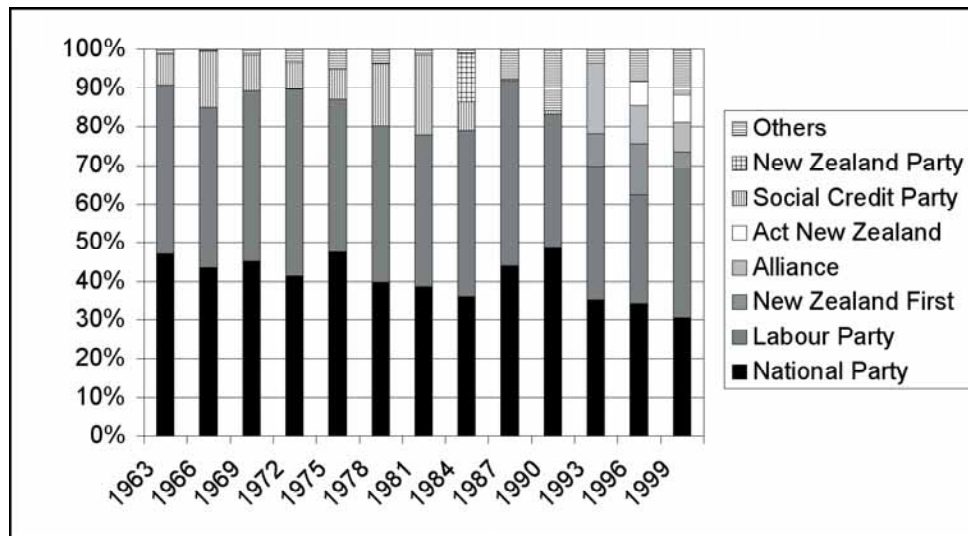


Figure B.3 Distribution of the votes in New Zealand

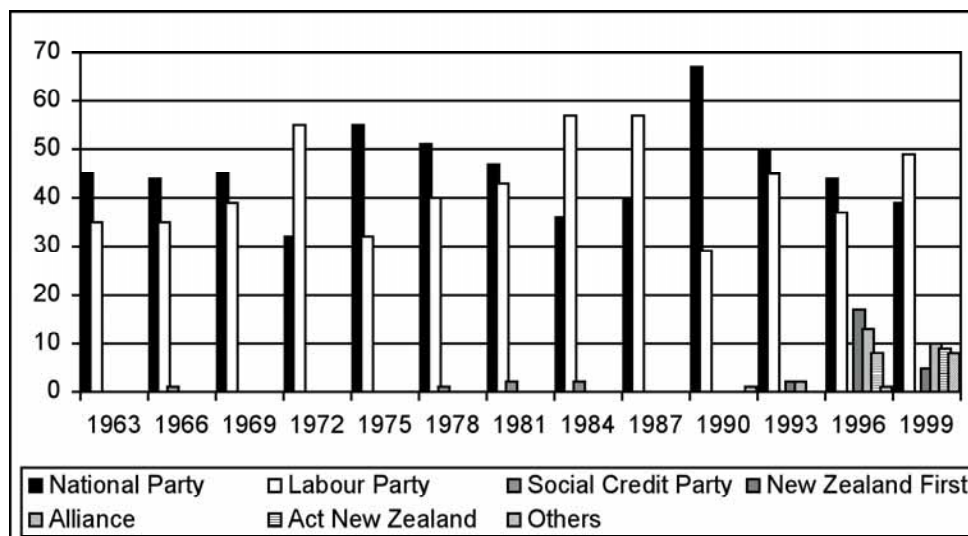


Figure B.4 Distribution of the seats in House of Representatives in New Zealand

Portugal

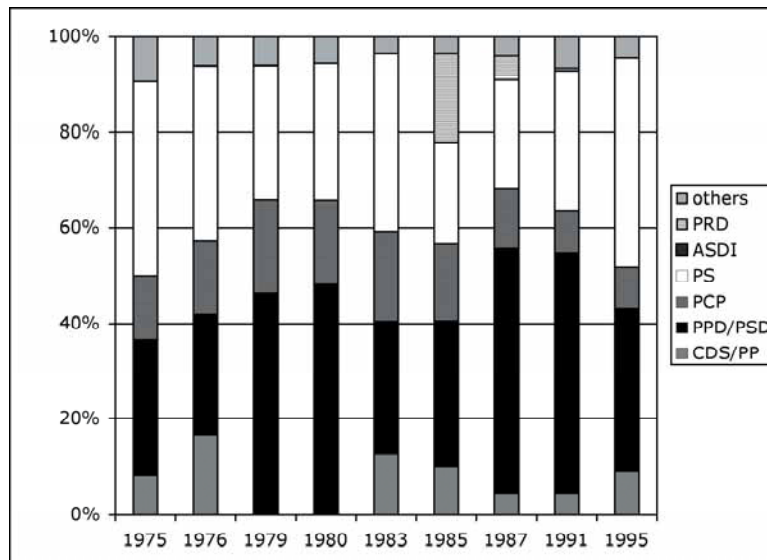


Figure B.5 Distribution of the votes in Portuguese elections

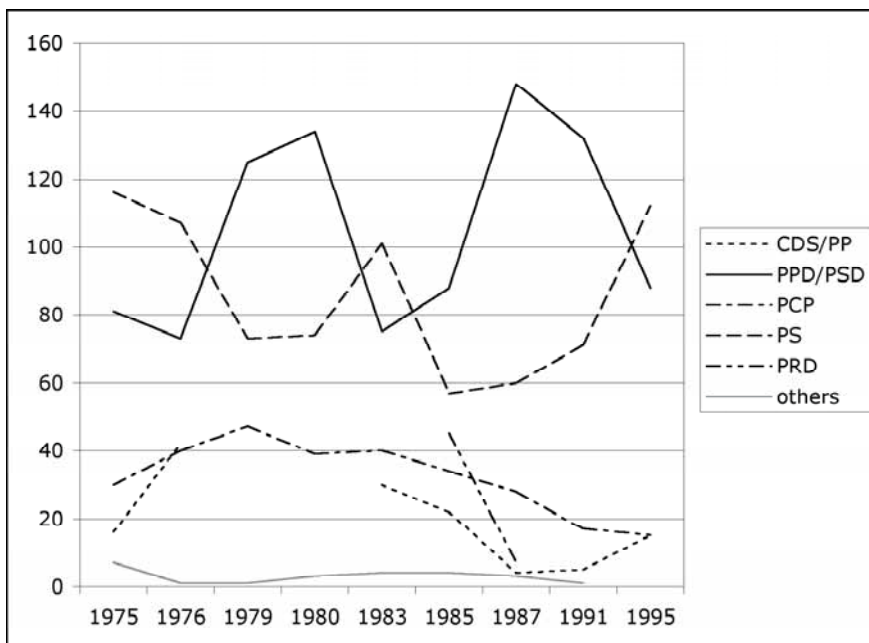


Figure B.6 Number of the seats in the Portuguese Assembly

Sweden

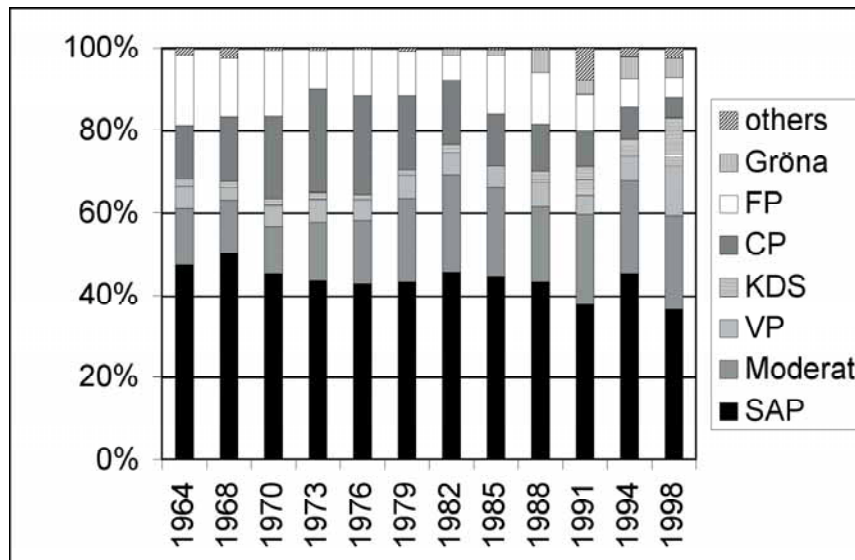


Figure B.7 Distribution of the votes in Swedish elections

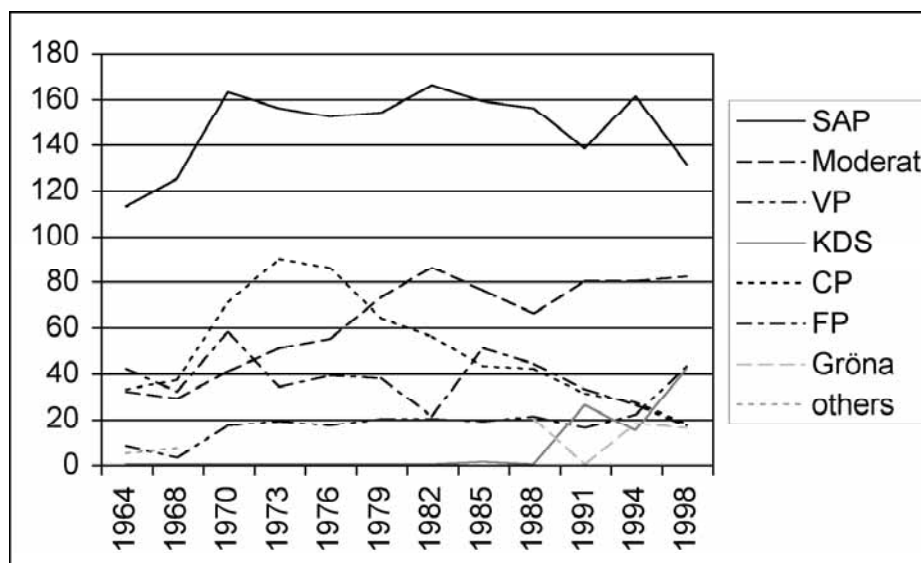


Figure B.8 Distribution of the seats in the Swedish Riksdag

APPENDIX C COMPARATIVE TABLES

Table C.1 Recalculated scores on the first dimension of Lijphart's consensus democracy (1965-98)

Country	minimal winning & one party cabinets	cabinet durability in days	effective number of parliamentary parties	dispro- portionality	integration of the Economy*	lijphart's consensus dimension 1**
au	61.6%	781	2.48	10.01	2.89	-0.42
at	72.4%	1228	2.54	1.87	4.63	0.07
be	36.5%	1032	6.66	3.13	3.88	1.06
ca	89.3%	1275	2.36	12.45	1.73	-1.39
dk	26.9%	857	4.89	2.22	4.19	1.03
fi	8.5%	900	5.16	3.31	4.21	1.19
fr	20.9%	734	3.33	14.80	2.08	-0.28
de	39.1%	1150	3.06	2.86	4.13	0.36
gr	84.3%	971	2.19	9.25	1.80	-1.00
ir	55.0%	1028	2.76	4.25	2.39	-0.28
it	11.6%	504	4.31	6.71	2.52	0.62
nl	35.1%	1379	4.74	2.59	4.00	0.58
nz	91.3%	829	2.12	12.79	2.30	-1.09
no	44.8%	925	3.59	5.38	4.63	0.53
pt	61.8%	961	2.81	5.25	2.38	-0.45
es	66.3%	1041	2.74	9.24	1.93	-0.79
se	49.8%	877	3.46	2.33	4.68	0.65
ch	0.0%	365	5.48	3.57	4.38	1.65
uk	99.1%	1297	2.15	13.69	1.96	-1.54
us	81.2%	2047	1.92	7.24	1.96	-1.49
Mean	51.8%	1010	3.48	6.58	3.21	0.00

Source: own calculations based on Lijphart (1984; 1999).

Notes:

* The variable 'integration of the economy' is the index developed by Siaroff (1999) and used by Lijphart (1999: 177) but labelled as 'interest group pluralism'. It is not another variable, but the original label is used instead of Lijphart's label.

** These are own recalculations of Lijphart's dimension 1.

Table C.2 Recalculated scores on the second dimension of Lijphart's consensus democracy (1965-98)

Country	Federal and decentralised government	Bicameralism	Constitutional rigidity	Judicial review	Central bank independence	lijphart's consensus dimension 2*
au	5.0	4.0	4.0	3.0	0.42	1.25
at	4.5	2.0	3.0	3.0	0.55	0.70
be	3.4	3.0	3.0	2.2	0.27	0.09
ca	5.0	3.0	4.0	3.7	0.52	1.35
dk	2.0	1.3	2.0	2.0	0.46	-0.47
fi	2.0	1.0	3.0	1.0	0.28	-0.84
fr	1.2	3.0	1.4	1.9	0.32	-0.61
de	5.0	4.0	3.5	4.0	0.69	1.82
gr	1.0	1.0	2.0	2.0	0.38	-0.83
ir	1.0	2.0	2.0	2.0	0.41	-0.55
it	1.3	3.0	2.0	2.8	0.26	-0.34
nl	3.0	3.0	3.0	1.0	0.48	0.09
nz	1.0	1.1	1.0	1.0	0.19	-1.61
no	2.0	1.5	3.0	2.0	0.17	-0.67
pt	1.0	1.0	3.0	2.0	0.28	-0.75
es	3.0	3.0	3.0	3.0	0.25	0.19
se	2.0	1.2	1.7	2.0	0.29	-0.86
ch	5.0	4.0	4.0	1.0	0.60	1.06
uk	1.0	2.5	1.0	1.0	0.31	-1.10
us	5.0	4.0	4.0	4.0	0.56	1.72
Total	2.8	2.5	2.7	2.2	0.39	0.00

Source: own calculations based on Lijphart (1984; 1999).

Note: * These are own recalculations of Lijphart's dimension 2.

Table C.3 Scores on index of consensus democracy

country	index of consensus democracy				
	1965-74	1975-84	1985-92	1993-98	1965-98
au	-0.32	0.12	-0.81	-0.07	-0.26
at	-0.06	0.00	0.73	0.60	0.26
be	0.82	1.33	1.05	0.88	1.03
ca	-1.17	-1.21	-1.20	-1.52	-1.25
dk	0.33	0.66	0.65	0.52	0.54
fi	1.33	1.53	1.36	1.26	1.38
fr	-0.38	0.03	-0.78	-1.26	-0.51
de	0.05	0.00	0.03	-0.12	0.00
gr		-0.60	-0.25	-0.37	-0.43
ir	-0.58	-0.46	-0.32	-0.22	-0.42
it	0.40	0.35	1.03	1.09	0.66
nl	1.19	0.82	0.44	0.78	0.83
nz	-1.40	-1.48	-1.39	-0.98	-1.35
no	-0.01	-0.29	0.01	-0.10	-0.10
pt		0.10	-0.25	-0.20	-0.10
es		-0.67	-0.37	-0.28	-0.45
se	-0.04	0.12	0.38	0.37	0.18
ch	2.00	1.96	2.08	2.13	2.03
uk	-1.24	-1.42	-1.47	-1.42	-1.38
us	-0.92	-1.00	-0.93	-1.09	-0.98

Source: own calculations based on Table 2.5.

Table C.4 Scores on index of corporatism

country	index of corporatism				
	1965-74	1975-84	1985-92	1993-98	1965-98
Australia	-0.08	0.49	0.45	-0.46	0.14
Austria	1.71	1.23	1.23	1.18	1.36
Belgium	0.75	0.51	0.63	0.72	0.64
Canada	-1.58	-2.08	-1.91	-1.60	-1.81
Denmark	0.81	0.79	0.59	0.73	0.74
Finland	0.56	1.13	1.19	1.32	1.01
France	-1.31	-0.51	-0.20	-0.04	-0.59
Germany	0.59	0.62	0.71	0.74	0.65
Greece		0.01	0.01	0.20	0.06
Ireland	0.06	0.46	0.69	0.30	0.37
Italy	-0.47	-0.31	-0.33	0.49	-0.22
Netherlands	0.16	-0.23	-0.26	0.02	-0.08
New Zealand	-0.77	-0.03	-0.57	-1.78	-0.68
Norway	0.63	0.41	0.76	0.83	0.63
Portugal		-0.21	0.15	-0.03	-0.04
Spain		-0.50	-0.40	-0.12	-0.37
Sweden	1.47	1.62	1.23	1.09	1.39
Switzerland	-0.10	-0.53	-0.38	-0.25	-0.32
UK	-0.65	-0.37	-1.02	-1.18	-0.75
USA	-1.78	-2.50	-2.55	-2.15	-2.24
Correlation between consensus democracy and corporatism					
Pearson's r	0.47	0.41	0.51	0.64	0.54
significance	0.055	0.070	0.020	0.002	0.014
Number of cases	17	20	20	20	20

Sources: Centralisation (3 = centralised, 2 = intermediate, 1 = decentralised): OECD (1997); Calmfors & Driffill (1988); IPD (1996); Coordination (3 = coordinated, 2 = intermediate, 1 = un-coordinated): OECD Employment Outlook, (1991: 97-134; 1994: 167-191); Calmfors & Driffill (1988); IPD (1996); Union density (percentage of labour force member of trade union): Ebbinghaus & Visser (2000); Coverage rate (percentage of labour force covered by collective agreement): OECD (1997); Traxler et al. (2001). Corporatism index: standardised scores of the sum of centralisation, coordination, union density and coverage rate.

Table C.5 Contextual variables (mean per category)

1965-74				
Cluster	1	2	3	4
Cabinet composition (from right to left)	1.85	1.34	2.43	3.03
Left parties in government (%)	20.90	8.12	32.61	50.95
Centre parties in government (%)	35.13	5.84	43.17	28.40
Right parties in government (%)	43.97	81.69	23.45	18.73
% left votes	26.65	18.72	42.43	40.88
% right votes	71.71	34.93	53.02	50.12
Work days lost due to strike	13694	1743	4595	328
Number of industrial disputes	2153	1618	1308	151
Central bank independence	-0.10	-0.70	0.19	0.37
Federalism	2.00	1.33	1.75	1.67
Presidentialism	0.50	0.83	0.50	0.83
Population. in millions	73.3	19.5	32.7	6.8
Imports + exports as % of GDP	38.2	43.6	62.3	64.5
Openness	9.6	6.8	10.8	9.7
European union (1=member; 0=non)	0.05	0.40	0.75	0.20
% agriculture employment	6	17	14	12
% industry employment	37	35	42	41
% service employment	57	48	44	47

Conscorp categories: (1) majoritarian and pluralist (2) mixed (3) corporatist or consensus democratic (4) corporatist and consensus democratic.

Sources: cabinet composition (1) rightwing (5) social democratic Schmidt (1996: 160) & CPDS; central bank independence (Franzese & Hall 2000; Busch 1993: 60); federalism 1=unitary. 3=federal (Lane & own estimations added); presidentialism (0) no (1) weak (2) strong (Lijphart 1984: 88); openness: combined index of openness of the economy CPDS.

1975-84				
Cluster	1	2	3	4
Cabinet composition (from right to left)	1.58	2.04	2.68	2.90
Left parties in government (%)	14.30	26.44	40.99	48.72
Centre parties in government (%)	32.41	19.10	38.80	25.55
Right parties in government (%)	53.29	44.85	19.94	22.81
% left votes	23.44	39.26	42.16	40.35
% right votes	73.59	52.16	53.04	49.48
Work days lost due to strike		2967	4703	364
Number of industrial disputes	1091	1813	802	429
Central bank independence	-0.11	-0.70	0.17	0.38
Federalism	2.00	1.33	1.75	1.67
Presidentialism	0.50	0.83	0.50	0.83
Population, in millions	79.60	21.30	34.00	7.00
Imports + exports as % of GDP	46.1	54.3	72.4	76.4
Openness	11.2	7.7	11.3	10.8
European union (1=member; 0=non)	0.25	0.35	0.75	0.33
% agriculture employment	5.7	11.5	8.6	8.1
% industry employment	32.2	32.7	36.6	35.3
% service employment	62.0	55.7	54.8	56.6

The institutional dynamics of consensus and conflict

1985-92				
Cluster	1	2	3	4
Cabinet composition (from right to left)	1.72	3.15	2.34	2.56
Left parties in government (%)	18.24	53.39	30.80	38.79
Centre parties in government (%)	0.00	5.32	51.37	25.59
Right parties in government (%)	81.76	34.27	17.16	34.61
% left votes	24.06	40.45	39.89	37.27
% right votes	72.72	52.42	51.55	49.77
Work days lost due to strike	3677.31	2642.26	1167.51	265.62
Number of industrial disputes	385.38	999.17	423.63	197.96
Central bank independence	-0.11	-0.70	0.19	0.38
Federalism	2.00	1.33	1.75	1.67
Presidentialism	0.50	0.83	0.50	0.83
Population, in millions	83.80	22.50	35.60	7.10
Imports + exports as % of GDP	45.0	56.7	68.5	77.1
Openness	13.5	10.4	12.7	12.0
European union (1=member; 0=non)	0.25	0.77	0.75	0.33
% agriculture employment	4.8	8.5	6.5	6.2
% industry employment	27.0	28.1	31.5	31.9
% service employment	68.3	63.5	62.0	61.8

1993-98				
Cluster	1	2	3	4
Cabinet composition (from right to left)	1.29	2.92	2.63	2.97
Left parties in government (%)	6.95	46.73	38.96	51.36
Centre parties in government (%)	45.83	14.41	36.45	26.70
Right parties in government (%)	47.14	33.09	15.01	20.01
% left votes	19.63	40.11	35.71	35.52
% right votes	61.46	49.68	48.13	48.34
Work days lost due to strike	1948.68	748.52	602.93	192.81
Number of industrial disputes	170.25	710.67	329.33	72.42
Central bank independence	-0.01	-0.64	0.23	0.36
Federalism	2.00	1.50	1.75	1.83
Presidentialism	0.50	0.83	0.50	0.83
Population, in millions	89.00	23.30	39.60	74.00
Imports + exports as % of GDP	52.5	63.7	69.7	82.1
Openness	13.8	12.5	13.9	13.0
European union (1=member; 0=non)	0.25	0.83	0.75	0.67
% agriculture employment	4.9	5.1	4.9	6.0
% industry employment	24.0	25.5	30.6	29.3
% service employment	71.0	69.4	64.6	64.7

Table C.6 GDP per capita (in constant US Dollars)

	1965-74	1975-84	1985-92	1993-98	1965-98
consensus and corporatist					
at	2011	8858	17198	26241	15996
be	2659	9670	16095	24418	15447
dk	3304	11593	21495	31655	19910
fi	2431	9581	20264	22621	16388
se	4335	12712	22573	26091	19268
ch	3498	14745	27553	38339	24866
<i>mean</i>	<i>3040</i>	<i>11193</i>	<i>20863</i>	<i>28228</i>	<i>18646</i>
consensus or corporatist					
de	2741	9826	17782	26832	16721
gr	1390	4456	6829	10801	6803
it	2003	6650	15425	19484	12848
nl	2713	10378	16463	24430	15827
<i>mean</i>	<i>2212</i>	<i>7828</i>	<i>14125</i>	<i>20387</i>	<i>13050</i>
non-corporatist and non-consensus democratic					
no	3285	13601	23257	32207	21365
au	3242	10904	15607	20499	14710
ir	1430	5215	10730	18841	10523
fr	2825	9900	17109	24044	15790
pt	834	2517	5746	10309	5600
es	1158	4746	10131	14210	8932
<i>mean</i>	<i>2129</i>	<i>7814</i>	<i>13763</i>	<i>20018</i>	<i>12820</i>
majoritarian and pluralist					
nz	2275	6621	11078	15287	10243
ca	3989	11059	17883	19821	15411
uk	2219	7572	14063	19946	12825
us	5000	12706	21103	28748	19477
<i>mean</i>	<i>3371</i>	<i>9490</i>	<i>16032</i>	<i>20951</i>	<i>14489</i>

Source: Comparative Political Data Set (Armingeon, Beyeler & Menegale 2000), own calculations.

Table C.7 Economic growth

	1965-74	1975-84	1985-92	1993-98	1965-98
consensus and corporatist					
at	4.9	2	2.9	1.8	3
be	4.7	1.8	2.6	1.9	2.9
dk	3.4	2.1	1.5	2.7	2.5
fi	4.9	2.8	1.3	3.8	3.2
se	3.5	1.6	1.3	1.9	2.1
ch	3.7	0.6	2	0.8	1.9
<i>mean</i>	4.2	1.8	1.9	2.2	2.6
consensus or corporatist					
de	3.9	1.8	3.3	1.2	2.6
gr	6.5	3.2	2	1.9	3.7
it	4.4	2.6	2.4	1.4	2.9
nl	4.8	1.6	2.9	2.9	3.1
<i>mean</i>	4.9	2.3	2.7	1.9	3.1
non-corporatist and non-consensus democratic					
no	4.3	4	2.5	4	3.7
au	4.9	2.6	3	4.4	3.7
ir	4.4	3.1	4	7.5	4.5
fr	4.9	2.1	2.5	1.5	2.9
pt	6.6	2.4	4.1	2.5	4
es	6.3	1.5	3.5	2.4	3.5
<i>mean</i>	5.2	2.6	3.3	3.7	3.7
majoritarian and pluralist					
nz	4.2	1.3	0.4	3.2	2.3
ca	5.4	3.3	2.4	3.2	3.7
uk	2.6	1.5	2.4	3	2.3
us	3.4	2.8	2.8	3.6	3.1
<i>mean</i>	3.9	2.2	2.0	3.3	2.9

Sources economic growth (annual change of real GDP): Comparative Political Data Set (Armingeon, Beyeler & Menegale 2000); OECD Economic Outlook, various years, own calculations.

Table C.8 Unemployment

	1965-74	1975-84	1985-92	1993-98	1965-98
consensus and corporatist					
at	1.57	2.51	3.44	4.2	2.75
be	2.46	8.78	8.46	9.43	6.96
dk	1.33	8.05	7.14	7.17	5.7
fi	2.3	5.53	6.01	15.05	6.37
se	2.02	2.46	2.81	9.43	3.64
ch	0	0.48	1.05	3.95	1.09
<i>means</i>	<i>1.61</i>	<i>4.64</i>	<i>4.82</i>	<i>8.21</i>	<i>4.42</i>
consensus or corporatist					
de	0.92	4.34	5.66	8.8	4.43
gr	3.96	3.82	7.65	10.08	5.87
it	5.59	6.49	9.3	11.65	7.8
nl	1.48	6.83	7.08	6.02	5.17
<i>means</i>	<i>2.99</i>	<i>5.37</i>	<i>7.42</i>	<i>9.14</i>	<i>5.82</i>
non-corporatist and non-consensus democratic					
no	1.59	2.23	3.99	4.82	2.91
au	1.88	6.53	8.13	9.12	5.99
ir	5.37	9.19	15.59	11.95	10.06
fr	2.34	6.16	9.84	12.03	6.94
pt	2.42	7.4	5.9	6.5	5.42
es	2.69	10.46	18.91	21.92	12.19
<i>means</i>	<i>2.72</i>	<i>7.00</i>	<i>10.39</i>	<i>11.06</i>	<i>7.25</i>
majoritarian and pluralist					
nz	0.25	2.51	6.66	7.37	3.68
ca	4.83	8.72	9.25	9.72	7.88
uk	3.14	7.55	9.45	8.4	6.85
us	4.52	7.63	6.39	5.57	6.06
<i>means</i>	<i>3.19</i>	<i>6.60</i>	<i>7.94</i>	<i>7.77</i>	<i>6.12</i>

Source unemployment (OECD standardised unemployment rate): OECD Economic Outlook, various years, own calculations.

Table C.9 inflation (cpi)

	1965-74	1975-84	1985-92	1993-98	1965-98
consensus and corporatist					
at	4.96	5.6	2.68	2.16	4.12
be	5.11	7.46	2.64	1.89	4.65
dk	7.57	9.66	3.6	1.92	6.25
fi	6.98	10.84	4.74	1.26	6.58
se	5.73	9.97	6.4	2.02	6.48
ch	5.24	3.63	3.25	1.23	3.59
<i>means</i>	<i>5.93</i>	<i>7.86</i>	<i>3.89</i>	<i>1.75</i>	<i>5.28</i>
consensus or corporatist					
de	4.12	4.35	2.21	2.21	3.4
gr	6.53	17.94	17.71	8.77	12.91
it	6	16.27	6.1	3.51	8.61
nl	6.1	5.88	1.55	2.27	4.29
<i>means</i>	<i>5.69</i>	<i>11.11</i>	<i>6.89</i>	<i>4.19</i>	<i>7.30</i>
non-corporatist and non-consensus democratic					
no	5.95	9.34	5.34	2.05	6.12
au	5.61	10.29	6.33	2	6.52
ir	7.75	14.83	3.53	1.95	7.82
fr	5.67	10.65	3.36	1.58	5.87
pt	8.87	22.66	12.1	3.99	12.83
es	8.23	16.26	6.63	3.57	9.39
<i>means</i>	<i>7.01</i>	<i>14.01</i>	<i>6.22</i>	<i>2.52</i>	<i>8.09</i>
majoritarian and pluralist					
nz	6.39	13.37	8.26	1.94	8.1
ca	4.77	8.78	4.19	1.4	5.22
uk	6.94	12.63	5.68	2.74	7.57
us	4.77	7.77	3.83	2.54	5.04
<i>means</i>	<i>5.72</i>	<i>10.64</i>	<i>5.49</i>	<i>2.16</i>	<i>6.48</i>

Source inflation (annual % change of consumer price index): OECD Economic Outlook, various years, own calculations.

Table C.10 Misery-index

	1965-74	1975-84	1985-92	1993-98	1965-98
consensus and corporatist					
at	6.5	8.1	6.1	6.4	6.9
be	7.6	16.2	11.1	11.3	11.6
dk	8.9	17.7	10.7	9.1	12
fi	9.3	16.4	10.8	16.3	13
se	7.8	12.4	9.2	11.4	10.1
ch	5.2	4.1	4.3	5.2	4.7
<i>mean</i>	7.5	12.5	8.7	10	9.7
consensus or corporatist					
de	5	8.7	7.9	11	7.8
gr	10.5	21.8	25.4	18.9	18.8
it	11.6	22.8	15.4	15.2	16.4
nl	7.6	12.7	8.6	8.3	9.5
<i>mean</i>	8.7	16.5	14.3	13.3	13.1
non-corporatist and non-consensus democratic					
no	7.5	11.6	9.3	6.9	9
au	7.5	16.8	14.5	11.1	12.5
ir	13.1	24	19.1	13.9	17.9
fr	8	16.8	13.2	13.6	12.8
pt	11.3	30.1	18	10.5	18.2
es	10.9	26.7	25.5	25.5	21.6
<i>mean</i>	9.7	21	16.6	13.6	15.3
majoritarian and pluralist					
nz	6.6	15.9	14.9	9.3	11.8
ca	9.6	17.5	13.4	11.1	13.1
uk	10.1	20.2	15.1	11.1	14.4
us	9.3	15.4	10.2	8.1	11.1
<i>mean</i>	8.9	17.2	13.4	9.9	12.6

Misery index = unemployment + inflation (own calculations).

Table C.11 Performance index

	1965-74	1975-84	1985-92	1993-98	1965-98
consensus and corporatist					
au	1.06	0.16	0.58	0.29	0.55
be	0.91	-0.68	0.03	-0.18	0.05
dk	0.45	-0.74	-0.2	0.26	-0.09
fi	0.79	-0.44	-0.28	-0.19	0
se	0.59	-0.36	-0.11	-0.18	0.01
ch	0.87	0.2	0.54	0.15	0.47
<i>mean</i>	<i>0.78</i>	<i>-0.31</i>	<i>0.09</i>	<i>0.03</i>	<i>0.16</i>
consensus or corporatist					
de	0.94	0.06	0.51	-0.32	0.36
gr	1.09	-0.86	-1.51	-0.9	-0.45
it	0.45	-1.12	-0.43	-0.66	-0.42
nl	0.93	-0.37	0.34	0.37	0.31
<i>mean</i>	<i>0.85</i>	<i>-0.57</i>	<i>-0.27</i>	<i>-0.38</i>	<i>-0.05</i>
non-corporatist and non-consensus democratic					
no	0.82	0.34	0.18	0.8	0.52
au	0.98	-0.53	-0.19	0.48	0.17
ir	0.3	-1.11	-0.39	1.01	-0.15
fr	0.93	-0.65	-0.2	-0.5	-0.05
pt	1.03	-1.88	-0.27	0.06	-0.3
es	0.99	-1.79	-1.15	-1.43	-0.76
<i>mean</i>	<i>0.84</i>	<i>-0.94</i>	<i>-0.34</i>	<i>0.07</i>	<i>-0.09</i>
majoritarian and pluralist					
nz	0.88	-0.77	-0.9	0.36	-0.12
ca	0.89	-0.43	-0.26	0.17	0.11
uk	0.13	-1.14	-0.42	0.14	-0.37
us	0.4	-0.35	0.18	0.59	0.16
<i>mean</i>	<i>0.58</i>	<i>-0.67</i>	<i>-0.35</i>	<i>0.31</i>	<i>-0.06</i>

Performance index = economic growth – unemployment - inflation (own calculations).

Table C.12 Social security expenditures (as % of GDP)

	1965-74	1975-84	1985-92	1993-98	1965-98
consensus and corporatist					
Austria	18.1	22.4	25.2	27.4	22.2
Belgium	18.5	26.1	27.2	28.7	24.2
Denmark	14.8	25.4	27.7	32.1	23.5
Finland	12.7	19.1	25.8	33.7	20.2
Sweden	18.1	29.5	33.1	35.7	27.3
Switzerland	10.3	14.7	17.9	24.8	15.6
<i>mean</i>	15.4	22.9	26.2	30.4	22.2
consensus or corporatist					
Germany	18.1	24.5	25.6	29.3	23.2
Greece		11.3	16.4	16.8	12.4
Italy	14.9	18.9	21.8	24.9	19.0
Netherlands	18.6	28.0	29.1	28.6	25.4
<i>Mean</i>	17.2	20.7	23.2	24.9	20.0
non-corporatist and non-consensus democratic					
Norway	14.2	19.3	24.8	28.9	20.6
Australia	7.8	11.8	12.8	16.1	11.2
Ireland	10.3	18.3	20.6	19.6	16.5
France	16.9	25.8	27.3	29.8	23.9
Portugal		9.7	12.7	18.5	10.8
Spain		15.4	19.0	22.0	17.7
<i>mean</i>	12.3	16.7	19.5	22.5	16.8
majoritarian and pluralist					
New Zealand	10.8	17.3	19.9	19.0	16.1
Canada	12.3	14.6	17.8	19.0	15.1
UK	13.7	18.5	20.1	22.9	17.8
USA	9.1	12.9	13.7	16.2	12.2
<i>mean</i>	11.5	15.8	17.9	19.3	15.3

Sources: OECD Social expenditures Database, Comparative Political Data Set.

Table C.13 Changes in misery and performance index

Period	change misery index			change performance index		
	65-74/ 75-84	75-84/ 85-92	85-92/ 93-98	65-74/ 75-84	75-84/ 85-92	85-92/ 93-98
4) consensus and corporatist						
Austria	1.58	-2.00	0.25	-0.90	0.43	-0.30
Belgium	8.67	-5.14	0.23	-1.59	0.71	-0.22
Denmark	8.81	-6.97	-1.65	-1.19	0.54	0.47
Finland	7.09	-5.62	5.56	-1.22	0.16	0.09
Sweden	4.68	-3.22	2.24	-0.95	0.26	-0.07
Switzerland	-1.13	0.19	0.88	-0.67	0.34	-0.39
<i>Mean</i>	<i>4.95</i>	<i>-3.79</i>	<i>1.25</i>	<i>-1.09</i>	<i>0.40</i>	<i>-0.07</i>
3) consensus or corporatist						
Germany	3.65	-0.82	3.14	-0.88	0.45	-0.83
Greece	11.27	3.60	-6.51	-1.95	-0.64	0.61
Italy	11.17	-7.36	-0.24	-1.57	0.69	-0.23
Netherlands	5.13	-4.09	-0.34	-1.31	0.72	0.03
<i>Mean</i>	<i>7.81</i>	<i>-2.16</i>	<i>-0.99</i>	<i>-1.43</i>	<i>0.30</i>	<i>-0.11</i>
2) non-corporatist and non-consensus						
Norway	4.03	-2.25	-2.46	-0.48	-0.16	0.62
Australia	9.33	-2.37	-3.34	-1.51	0.34	0.67
Ireland	10.90	-4.91	-5.21	-1.41	0.72	1.40
France	8.80	-3.61	0.41	-1.58	0.44	-0.30
Portugal	18.77	-12.06	-7.51	-2.91	1.60	0.33
Spain	15.80	-1.18	-0.05	-2.78	0.64	-0.27
<i>Mean</i>	<i>11.27</i>	<i>-4.40</i>	<i>-3.03</i>	<i>-1.78</i>	<i>0.60</i>	<i>0.41</i>
1) majoritarian and pluralist						
New Zealand	9.24	-0.96	-5.62	-1.65	-0.12	1.26
Canada	7.90	-4.06	-2.33	-1.32	0.17	0.44
UK	10.10	-5.06	-3.99	-1.26	0.72	0.56
USA	6.11	-5.19	-2.11	-0.75	0.53	0.41
<i>Mean</i>	<i>8.34</i>	<i>-3.82</i>	<i>-3.51</i>	<i>-1.25</i>	<i>0.32</i>	<i>0.67</i>

Sources: Tables C.10 & C.11 (Appendix C), own calculations.

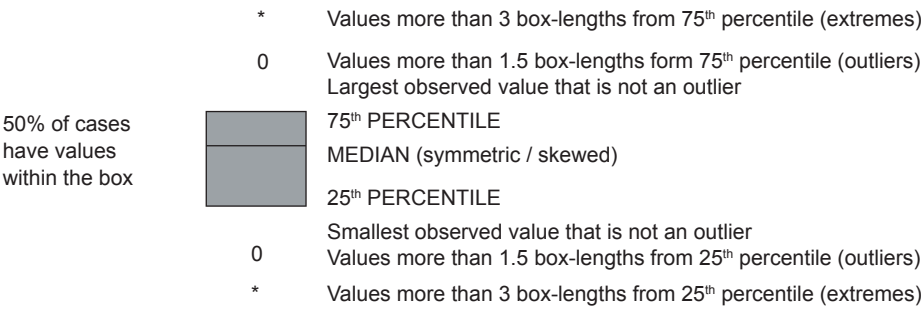


Figure C.1 Sketch of a boxplot

The institutional dynamics of consensus and conflict

Dutch summary

De institutionele dynamiek van consensus en conflict. Consensusdemocratie, corporatisme en sociaal-economisch beleid in twintig ontwikkelde democratieën (1965-1998).

Dit proefschrift analyseert de relatie tussen verschillende vormen van de politiek-institutionele inrichting van een land en de invloed hiervan op sociaal-economisch beleid. De instituties, d.w.z. de formele en informele regels van het politieke 'spel', van consensusdemocratie dragen ertoe bij dat zoveel mogelijk partijen en groepen uit de samenleving betrokken zijn bij politieke besluitvorming; dit in tegenstelling tot een meerderheidsdemocratie, waarin alle macht geconcentreerd wordt in één partij. In corporatistische landen is sprake van geïnstitutionaliseerde samenwerking tussen werkgeversorganisaties en vakbonden, al dan niet in overleg met de overheid. In pluralistische systemen is er veel minder sprake van coördinatie en centralisering van overleg over sociaal-economisch beleid.

De **centrale vraag** van het proefschrift luidt:

Onder welke omstandigheden en in welke mate dragen de instituties van consensusdemocratie en corporatisme bij tot een adequaat sociaal-economisch beleid in twintig geïndustrialiseerde democratieën?

In een drietal opzichten draagt dit proefschrift bij aan bestaand onderzoek op het terrein van de vergelijkende politieke economie. Ten eerste worden consensusdemocratie en corporatisme expliciet met elkaar vergeleken. Deze typen van institutionele inrichting worden niet als onderdeel van elkaar beschouwd, maar de relatie tussen beide concepten wordt onderzocht, alsmede hun invloed op sociaal-economisch beleid. Ten tweede worden zowel formele als informele instituties in de analyse opgenomen. Instituties bestaan uit de regels of de mechanismen die voorkeuren van actoren omzetten in collectieve besluiten. Formele regels zijn vastgelegd in wetten en zijn extern afdwingbaar. Informele regels zijn gebaseerd op afspraken tussen betrokken actoren. Ten derde wordt er een dynamische - in plaats van een statische - analyse uitgevoerd. Dit betekent dat niet alleen variaties door de tijd heen onderzocht worden, maar ook de interacties tussen actoren en instituties. Het gaat hierbij om hoe actoren instituties aanpassen om andere beleidsuitkomsten te verkrijgen en hoe verschillende beleidsuitkomsten strategieën van actoren beïnvloeden.

Het empirische onderzoek van dit proefschrift valt uiteen in twee onderdelen. In deel II worden twintig democratieën¹ vergelijkenderwijs onderzocht met behulp van de empirisch-analytische benadering, gebaseerd op kwantitatieve gegevens. In deel III worden vier landen geselecteerd uit de groep van twintig voor een meer gedetailleerde analyse. De selectie van deze gevalsstudies heeft plaatsgevonden op basis van de gevonden patronen in deel II. Hierdoor is het mogelijk de algemene patronen en resultaten van Deel II te verdiepen en te valideren.

Vergelijking van twintig landen

De studie naar consensusdemocratie is begonnen met enkele landenstudies waarin werd verklaard hoe politieke stabiliteit mogelijk is, ondanks een sterk verdeelde samenleving. Zo heeft Lijphart in 1968 aangetoond dat de verdeeldheid op basis van religieuze tegenstellingen in de Nederlandse samenleving ten tijde van de verzuiling gecompenseerd werd door samenwerking van de elites van de zuilen. Steiner heeft in 1974 laten zien hoe door informele afspraken over coalitievorming, de zogenaamde toverformule, een stabiele regering gevormd kan worden in Zwitserland, ondanks etnische en taalverschillen. Deze en andere landenstudies laten zien hoe het ontstaan van informele regels voorkomt dat er een patstelling ontstaat wanneer louter de formele regels toegepast zouden worden.

Consensusdemocratie

In hoofdstuk 2 worden de institutionele kenmerken besproken die in een politiek systeem bijdragen tot consensus en overleg. Twee kenmerken zijn essentieel voor een consensusdemocratie: het kiesstelsel is gebaseerd op evenredige vertegenwoordiging en coalitieregeringen worden in de regel gevormd op basis van een brede meerderheid in het parlement. Een meerderheidsdemocratie wordt juist gekenmerkt door het tegenovergestelde. Door het kiesstelsel, het zogenaamde districtenstelsel, zijn er maar twee partijen sterk vertegenwoordigd in het parlement en heeft één van deze partijen meestal de mogelijkheid om alleen te regeren.

In dit proefschrift is gekomen tot een nadere uitwerking van de verschillen tussen consensus- en meerderheidsdemocratie. Ten eerst wordt electorale fragmentatie gemeten aan de hand van het effectieve aantal partijen in het parlement en de evenredigheid van het kiesstelsel. Dit laatste wordt geoperationaliseerd met twee maatstaven: een classificatie van kiesstelsels van meest naar minst evenredig en de mate waarin de verdeling van de zetels over de partijen afwijkt van hun stemaandeel. De mate waarin brede coalities gevormd worden kan gemeten worden door een classificatie van brede tot minimaal winnende coalitieregeringen en de omvang van de parlementaire steun welke geïndiceerd wordt door het aandeel

in het parlement dat de coalitie steunt, boven de noodzakelijke 50%. Met behulp van deze kenmerken is een schaal geconstrueerd waarmee landen gerangschikt kunnen worden van consensus- tot meerderheidsdemocratie. De in dit proefschrift ontwikkelde schaal is adequater en is geschikter om dynamische patronen te analyseren dan de oorspronkelijke index van Lijphart, die hij in 1984 ontwikkelde en in 1999 verder heeft gepreciseerd.

Corporatisme

Het corporatisme-debat in de jaren '70 vroeg aandacht voor de positieve invloed van geïstitutionaliseerde verhoudingen tussen werknemers en werkgevers op sociaal-economisch gebied. Al dan niet in overleg met de overheid, bleken sociale partners namelijk afspraken te maken over loonmatiging in ruil voor behoud van werkgelegenheid en een redelijk peil van sociale voorzieningen. In tegenstelling tot neoliberale economen is een aantal aanhangers van het corporatisme van mening dat samenwerking van werknemers en werkgevers leidt tot coördinatie van het macro-economisch beleid, waardoor een bijdrage geleverd wordt aan de matiging van werkloosheid en inflatie en aan stimulering van economische groei. Verschillende auteurs hebben indicatoren ontwikkeld waarmee de mate van corporatisme empirisch gemeten kan worden. Het probleem van deze bestaande schalen is dat zij meestal statisch zijn. Ze meten slechts de mate van corporatisme op een bepaald tijdstip en zodoende is het niet mogelijk ontwikkelingen door de tijd te waar te nemen. Daarom is in dit proefschrift een nieuwe corporatismeschaal geconstrueerd. Deze schaal is gebaseerd op drie factoren: de mate van coördinatie en centralisatie van loononderhandelingen, de organisatiegraad van vakbonden en het aandeel werknemers dat werkt bij een bedrijf waar een collectieve arbeidsovereenkomst van toepassing is. Op basis van deze dynamische maatstaf kunnen landen in verschillende perioden gerangschikt worden van corporatistisch tot pluralistisch. Omdat deze schaal alleen gericht is op de relatie tussen werknemers en werkgevers, is deze bij uitstek geschikt om de relatie tussen corporatisme en consensusdemocratie te onderzoeken, omdat de rol van de overheid slechts gemeten wordt in de index van consensusdemocratie.

Relatie tussen consensusdemocratie en corporatisme

Hoofdstuk 4 bespreekt de conceptuele en empirische samenhang tussen consensusdemocratie en corporatisme. Dit samenstel van instituties hebben met elkaar gemeen dat ze bevorderen dat zoveel mogelijk groepen en partijen bij besluitvorming worden betrokken. Besluitvorming is tevens zoveel mogelijk gebaseerd op overleg en het bereiken van consensus. Dit is een effect dat niet

of nauwelijks voor lijkt te komen in meerderheidsdemocratie en pluralisme. Deze gevallen leiden veeleer tot polarisatie tussen coalitie en oppositie en tussen werknemers en werkgevers.

Alhoewel er conceptueel een sterke overeenkomst is tussen corporatisme en consensusdemocratie voor wat betreft de werking van instituties en het gedrag van actoren, hebben de verschillende instituties echter betrekking op andere besluitvormingsarena's. Uit de analyse blijkt dat enerzijds corporatisme en consensusdemocratie en anderzijds pluralisme en meerderheidsdemocratie niet altijd systematisch samengaan. Bovendien is deze samenhang niet overal in gelijke mate waarneembaar. Corporatisme en consensusdemocratie dienen dan ook te worden beschouwd als verschillende typen van institutionele arrangementen. Ze zijn niet hetzelfde en de één is niet slechts een onderdeel van de ander.

Invloed op sociaal-economisch beleid

Consensusdemocratie en corporatisme bevorderen samenwerking en overleg tussen actoren en actoren hebben een groter vertrouwen in de instituties. Actoren kunnen zo gemakkelijker afspraken maken over sociaal-economisch beleid in het algemeen belang en zijn belangengroepen niet alleen uit op maximalisatie van hun eigenbelang. Hierdoor zouden deze instituties een positief effect kunnen hebben op de economie. Anderen daarentegen beweren dat de betrokkenheid van veel actoren bij het besluitvormingsproces juist kan leiden tot stroperigheid en besluiteloosheid. Dit zou bijdragen tot vermindering van het aanpassingsvermogen van de economie en tot slechtere sociaal-economische prestaties.

Hoofdstuk 5 onderzoekt de invloed van consensusdemocratie en corporatisme op de volgende sociaal-economische indicatoren: Bruto Nationaal Product (BNP) per hoofd van de bevolking, economische groei, werkloosheid, inflatie en de uitgaven aan sociale zekerheid. Deze indicatoren geven weer wat de invloed is van het beleid op de sociaal-economische ontwikkeling van een land.

De analyse laat zien dat consensusdemocratie en corporatisme niet altijd samengaan met betere sociaal-economische prestaties. Echter, het tegenovergestelde is ook niet van toepassing: deze institutionele arrangementen leiden niet tot slechtere beleidsuitkomsten.

Het blijkt dat in de jaren '70 en '80 consensusdemocratie en corporatisme correleren met minder werkloosheid en inflatie, maar dit positieve effect is grotendeels verdwenen in de jaren '90. Landen gekenmerkt door consensusdemocratie en corporatisme hebben wel een hoger BNP per hoofd van de bevolking, maar de economische groei is vaak lager dan in andere landen. Corporatisme blijkt duidelijker van invloed te zijn op de omvang van de sociale voorzieningen. Landen

met een corporatistisch stelsel besteden een hoger percentage van het BNP aan sociale zekerheid dan landen zonder corporatisme. Dit effect blijft aanwezig wanneer gecontroleerd wordt voor andere variabelen, zoals de rol van de centrale bank en de openheid van de economie.

Deze analyses zijn gebaseerd op kwantitatieve gegevens van twintig landen. Hierdoor kan wel de invloed van instituties op sociaal-economisch prestaties onderzocht worden, maar niet hoe interacties tussen instituties en actoren van invloed zijn op sociaal-economisch beleid. Daartoe zijn vier casestudies uitgevoerd. Op basis van de gevonden patronen in hoofdstuk 5, zijn vier landen geselecteerd voor nadere analyse. Zweden wordt gekozen als een land met een hoge mate van corporatisme en een behoorlijke mate van consensusdemocratie. Nederland is een casus van consensusdemocratie en gold in het verleden als een in ieder geval corporatistisch systeem. Portugal wordt niet sterk gekenmerkt door consensusdemocratie en corporatisme. Nieuw Zeeland contrasteert omdat het tot in jaren 90 gekenmerkt is als een geval van meerderheidsdemocratie en pluralisme.

De vier casestudies

Nederland is bekend om haar vorm van consensusdemocratie, ontstaan uit de noodzaak om polarisatie en conflict tussen de verschillende zuilen te voorkomen. Ondanks de ontzuiling sinds de jaren '60, zijn veel institutionele kenmerken van de consensusdemocratie blijven bestaan.

De Nederlandse economie wordt weliswaar gekenmerkt door formele en informele overlegstructuren, maar in vergelijking met andere landen is de mate van corporatisme niet buitengewoon hoog. Alhoewel werknemers en werkgevers betrokken zijn bij het sociaal-economisch beleid, heeft uiteindelijk de overheid een beslissende stem. De kracht van de Nederlandse overlegstructuur is dus niet dat sociale partners vrijwillig met de overheid tot overeenstemming komen, maar dat ondanks de dominante rol van de overheid belangengroepen zich betrokken blijven voelen bij het sociaal-economisch beleid en er dus niet voor kiezen om dit beleid te ondermijnen.

Tot aan het einde van de jaren '80 kende de Nederlandse economie een dramatische combinatie van lage arbeidsparticipatie en een hoog niveau van sociale voorzieningen. De regering bleek niet in staat om meer banen te creëren noch om de sociale zekerheid te saneren. In de jaren '90 lukte het om te profiteren van de opleving van de wereldeconomie. Flexibele arbeidsvoorwaarden en de ruime mogelijkheden tot deeltijdwerk droegen er toe bij dat vrouwen gemakkelijker op de arbeidsmarkt konden treden. De snelle inzet van een arbeidsreserve heeft

bijgedragen aan sterke economisch groei in de jaren '90. Het stelsel van sociale zekerheid bleef grotendeels in tact, maar op een aantal terreinen is de regering er toch in geslaagd om veranderingen door te voeren.

Volgens de analyse blijkt dat consensusdemocratie en corporatisme niet van doorslaggevend belang zijn geweest voor het sterke economische herstel in de jaren '90. Er bestond weliswaar overleg met belangengroepen, maar over het algemeen speelde de overheid een dominante rol.

Nieuw-Zeeland heeft sterke veranderingen doorgemaakt van zowel instituties als van sociaal-economisch beleid. Tot de jaren '80 was er sprake van overheidsregulering van de economie. Echter, nadat het Verenigd Koninkrijk toegetreden was tot de Europese Gemeenschap, verdwenen de voorkeursrechten in de handel voor Nieuw-Zeeland. Dit leidde tot een ernstige en langdurige economische crisis. In de jaren '80 maakte de *Labour*-regering een einde aan de overheidsregulering en startte men een neoliberaal beleid. De daarop volgende conservatieve *National Party*-regering startte een rigoureuze hervorming van de verzorgingsstaat.

Naast radicale economische veranderingen, kende Nieuw-Zeeland ook veranderingen van instituties. Tot in de jaren '90 was sprake van een typische meerderheidsdemocratie. Ontevredenheid onder burgers en politieke partijen over electorale resultaten en het economisch beleid maakte de weg vrij voor het invoeren van een gemengde vorm van het evenredig kiesstelsel en het districtenstelsel. Daarnaast werden in de jaren '80 de loononderhandelingen volledig gedecentraliseerd. Iedere vorm van coördinatie verdween en de invloed van de vakbonden is nu sterk gereduceerd.

Nieuw-Zeeland vertoont een interessant patroon van veranderingen van instituties van meerderheidsdemocratie in de richting van consensusdemocratie. Bovendien schoven de politiek-economische instituties duidelijk op in de richting van pluralisme. Deze veranderingen hebben echter niet sterk bijgedragen aan betere sociaal-economische uitkomsten.

Het politieke systeem van *Portugal* heeft een belangrijke verandering doorgemaakt tijdens de overgang naar een democratie in de jaren '70. Bovendien heeft de toetreding tot de Europese Gemeenschap sterk bijgedragen aan verbeteringen van de economische structuur en versterking van de handelsrelaties met Europese landen.

Tijdens de postrevolutionaire periode hebben instituties van consensusdemocratie bijgedragen aan de ontwikkeling van een stabiel politiek systeem. Toen de politieke stabiliteit eenmaal gerealiseerd was, kreeg het systeem meer kenmerken van een meerderheidsdemocratie. Consensusdemocratie is niet direct van belang geweest

voor het sociaal-economisch beleid, maar wel voor een succesvolle transitie naar democratie. Het effect van consensusdemocratie is hooguit indirect te noemen. Door de bijdrage aan een stabiel politiek systeem, werd Portugal aantrekkelijk voor buitenlandse investeerders. Bovendien werd mede hierdoor de toetreding tot de Europese Gemeenschap mogelijk.

Van sterke corporatistische verhoudingen na de revolutie is in Portugal geen sprake geweest. In de eerste jaren na de revolutie, waren de verhoudingen tussen vakbonden en werkgeversorganisaties bijzonder slecht. Samen met linkse politieke partijen streefde radicale vakbonden naar nationalisatie van grote bedrijven met als einddoel het stichten van een socialistische economie. Nadat in de jaren '80 het politieke klimaat wat meer gematigd was, verbeterden langzamerhand de verhoudingen tussen arbeid en kapitaal. In de jaren '90 was weliswaar incidenteel sprake van een nationaal akkoord, de verhoudingen tussen vakbonden en werkgevers kreeg geen sterk geïstitutionaliseerde vorm.

Het Zweeds politieke systeem is nagenoeg onveranderd gebleven. De veranderingen in Zweden zijn te vinden in de relatie tussen werknemers en werkgevers. Zweden heeft jarenlang model gestaan met haar succesvolle corporatistische instituties. In vergelijking met andere landen, kende Zweden een veel langere periode van economische groei en hoge arbeidsparticipatie. In de jaren '90 verslechterde echter het Zweedse economische klimaat. Hierdoor ontstond ontevredenheid bij werkgevers en conservatieve politieke partijen over het corporatistische model. Ze hebben het stelsel van arbeidsverhoudingen aanzienlijk gedecentraliseerd. Vooralsnog heeft dit niet bijgedragen tot een duidelijke verbetering van de economische prestaties.

De institutionele dynamiek van consensus en conflict en de aanpak van sociaal-economische problemen

Dit proefschrift heeft aangetoond dat de instituties van consensusdemocratie en corporatisme van elkaar onderscheiden moeten worden en dat ze verschillende effecten hebben op macro-economisch beleid. De positieve effecten van consensusdemocratie en corporatisme worden over het algemeen overschat. In de jaren '70 en '80 hebben consensus democratie en corporatisme in zekere mate bijdragen tot minder werkloosheid en inflatie, maar dit positieve effect is grotendeels verdwenen in de jaren '90. Het tegendeel is echter ook waar. Er is geen enkele reden om aan te nemen dat de instituties van meerderheidsdemocratie en pluralisme beter zijn. Corporatistische landen besteden wel een groter percentage van het Bruto Nationaal Product aan sociale zekerheid dan andere landen.

Wanneer we de interactie tussen actoren en instituties beschouwen, kunnen we twee arena's, twee niveau's en twee fasen van economisch beleid onderscheiden. Allereerst is er sprake van besluitvorming in de politieke arena en de verhoudingen tussen werknemers en werkgevers, al dan niet samen met de overheid. De politieke arena staat duidelijk boven die waarin sociale partners opereren. Op cruciale momenten is de rol van de overheid doorslaggevend. Ten tweede opereren de belangrijkste actoren op tenminste twee niveau's. Politieke partijen, vakbonden en werkgeversorganisaties onderhandelen met elkaar, maar ze zijn tevens afhankelijk van steun van hun achterban, op een lager niveau. Ten derde kunnen we stellen dat er wederzijdse beïnvloeding is tussen het gedrag van actoren (binnen de institutionele ruimte) en het economische beleid. In de eerste fase heeft de economische situatie invloed op het gedrag en de strategie van actoren. Vervolgens trachten deze actoren in de tweede fase instituties aan te passen om resultaten te verkrijgen die meer in overeenstemming zijn met hun eigen voorkeuren. In deze studie is gebleken dat deze wisselwerking tussen actoren, instituties en economisch beleid een verklaring vormen voor de processen in hedendaagse Westerse democratieën.

Met deze benadering levert dit proefschrift een theoretisch bijdrage aan de vergelijkende politieke economie. De combinatie van kwantitatieve vergelijking en kwalitatieve casestudies heeft nieuwe empirische onderzoeksresultaten opgeleverd. Hierbij is gebruik gemaakt van verbeterde empirische indicatoren om institutionele ontwikkelingen te meten. De nieuwe inzichten zijn allereerste relevant voor de politicologie, maar zullen uiteindelijk ook van dienst kunnen zijn voor het politieke en maatschappelijke debat.

Noten

- ¹ Australië, België, Canada, Denemarken, Duitsland, Finland, Frankrijk, Griekenland, Ierland, Italië, Nederland, Nieuw-Zeeland, Noorwegen, Oostenrijk, Portugal, Spanje, Verenigde Staten, Verenigd Koninkrijk, Zweden en Zwitserland. Omdat deze geïndustrialiseerde landen veel kenmerken gemeenschappelijk hebben, is het *most similar system design* van toepassing.

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